

DOCUMENT RESUME

ED 115 822

CE 005 645

TITLE An Analysis of the Federal Bonding Program. Volume 2: Program Analysis. Final Report.

INSTITUTION Contract Research Corp., Belmont, Mass.

SPONS AGENCY Manpower Administration (DOL), Washington, D.C. Office of Manpower Research.

PUB DATE Sep 75

NOTE 222p.; For related documents, see CE 005 644-646

EDRS PRICE MF-\$0.76 HC-\$10.78 Plus Postage

DESCRIPTORS *Data Analysis; Demography; *Disadvantaged Groups; Employer Employee Relationship; Employment Services; Evaluation Methods; *Federal Programs; *Indemnity Bonds; Insurance Programs; Participant Characteristics; Program Descriptions; Program Development; *Program Evaluation; Tables (Data)

IDENTIFIERS Exoffenders; *Fidelity Bonding

ABSTRACT

The Federal Bonding Program, providing fidelity bonding for individuals excluded from insurance policy bonding and thus ineligible for certain types of employment, is analyzed. The first section of the document contains a brief history of the program, a discussion of the data analysis approach, a series of 36 summary findings, conclusions, and recommendations. Two basic conclusions state: (1) the program appears to be achieving significant results for some ex-offenders at a relatively low cost, but there are insufficient data to determine program impact estimates; and (2) efforts to pinpoint who is best served, and why, should be made to improve program utilization. Operational characteristics are presented in detail in the second section, and include participant, utilization, and loss information. Data state that 6,655 bonds have been issued to 6,401 individuals, predominantly male, between June 1966 and July 1974. The third section deals with program results extensively, including information on an Illinois Case Study, bondee data, employer data, the insurance industry, and bondee employability. Forty-nine exhibits of tabulated data are included. Eight appendixes present additional information regarding conclusions, data, survey instruments, program descriptions, and Federal government activities. This is the second in a series of three documents. (LH)

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AN ANALYSIS OF THE FEDERAL BONDING PROGRAM

VOLUME II: PROGRAM ANALYSIS

FINAL REPORT

September 1975

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CE 005 645

This study was conducted under Contract Number 20-25-75-01 with the Office of Manpower Research and Development of the Manpower Administration U. S. Department of Labor.

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PREFACE

This report presents the results of an analysis of the Federal Bonding Program from the first Bonding Assistance Demonstration Projects to the present nationwide Manpower Administration effort. The analysis was conducted by Contract Research Corporation from August, 1974, through September, 1975, under Contract Number 20-25-75-01 with the Office of Manpower Research and Development, Manpower Administration, U. S. Department of Labor.

The results of our analysis are presented in a two volume final report. Volume I contains the Program History focusing upon the program origins and its subsequent administrative evolution. Volume II contains the Program Analysis, a compilation and analysis of data concerning the utilization of the bonding program and its results. The program analysis contains the findings of this study relative to utilization and results, the conclusions based upon these findings, and a set of recommendations. A Summary containing the highlights of the Program History and Program Analysis is presented in a separate volume.

Among the Contract Research Corporation staff, major contributions to this study were made by the following individuals. Susan Carnduff assisted in the conduct of the historical analysis and had primary responsibility for the program analysis and preparation of Volume II of this report. Carole Miller participated in the conduct of the historical and program analyses and prepared drafts of several sections of Volume I. Diane Savitzky conducted much of the analysis of program data and drafted several sections of Volume II. Additional data tabulation and analysis activities were carried out by Josie Bauer and Giles Carter. Dr. Herbert Weisberg provided statistical consultation to project staff throughout the study. Hal Shear provided invaluable advice at key points in the conduct of the study and technical review of its major reports.

Whatever strengths can be found in this report are, in large part, attributable to the overall support and direction of the project team provided by Joanna Kennedy, Corporate Officer in Charge of the project.

The Contract Research Corporation staff are indebted to a great number of people for their cooperation in all aspects of this study. Current and former Department of Labor and insurance industry officials consented to be interviewed, offered suggestions, shared opinions and files, and reviewed earlier drafts of this report. While it is difficult to single out any one individual, it must be said that it is impossible to think of anything our Project Officer, William R. Throckmorton, could have done to facilitate the study that he did not do. His enthusiastic

support of the project has set a standard which it is unlikely that many others can match.

A special word of appreciation is due to the current and former bonding program participants and their employers who took the time and trouble to complete our follow-up survey instruments and provided us with critical data that was nowhere else available. It is our hope that the results of our analysis will make it possible for the Department of Labor to improve its delivery of manpower services to future ex-offender job seekers, and to their employers.

Lawrence Bailis
Project Director
September, 1975

1.0 OVERVIEW

This report presents the results of an analysis of a wide range of data of varying quality concerning the characteristics and results of the Federal Bonding Program. In order to place these characteristics and results in a proper context, they are preceded by brief discussions of:

- the history and background of the program;
- the purpose of this report;
- the nature and limitations of the data;
- the approach taken in utilizing the data.

The overview section concludes with a summary of the major findings and conclusions of the report, and recommendations for strengthening the program.

1.1 Background: The Federal Bonding Program

Fidelity bonding is a form of insurance utilized to indemnify employers for loss of money or other property sustained through dishonest acts of covered employees. These acts include larceny, theft, forgery, and embezzlement. Loss caused by omission or error not involving dishonesty is not covered.

In recent years, fidelity bonding coverage has generally been purchased by employers in the form of a blanket bond, a single policy which collectively covers all officers and employees of the establishment. Other, less used, kinds of bonding include individual bonds (which, as is suggested by the name, cover only one individual for a specified amount of loss), name schedule bonds (which list individual employees and amounts of their coverage), and position schedule bonds (which cover all employees in a given position, e.g., cashier, for a stated amount without listing their names).

The blanket bonds have constituted the largest portion of the market because of their greater administrative simplicity; under blanket bonds there

is no need to update the policy whenever personnel actions are taken or new job categories created.

Fidelity bonding is generally considered good financial management practice, and is now utilized by many employers. However, fidelity bonding has stood as a major barrier to the employment of those with police records and ex-offenders because the standard fidelity bonding policies throughout the United States have included the following clause:

The coverage of this Bond shall not cover any Employee from and after the time that the Insured or any partner officer thereof not in collusion with such Employee shall have the knowledge or information that such Employee has committed any fraudulent or dishonest act in the service of the Insured or otherwise, whether such act be committed before or after the date of employment by the Insured. (Emphasis added.)

Fidelity bonding underwriters have included this clause because, according to standard fidelity bonding practice, bonds should not be issued at all whenever there is any reasonable likelihood that an individual might default. In other words, unlike life insurance underwriters, who set premiums according to the degree of risk, fidelity bond underwriters generally seek to avoid risk altogether. In the eyes of these underwriters, previous commission of a dishonest or fraudulent act is an indicator of a likelihood to do so again in the future.*

The Federal Bonding Program emerged from a series of experimental and demonstration (E & D) efforts by the Department of Labor to determine whether ex-offenders and other potential employees excluded by the "fraudulent or dishonest" clause in the bonds were truly such a risk as to be justifiably prohibited from working at certain jobs for the rest of their lives because of a previous "record".

* Many insurers state that they waive this restrictive clause whenever employers give them good evidence of the trustworthiness of a potential employee. Some employers, on the other hand, dispute this statement.

These E & D bonding efforts were planned by the Department of Labor in early 1965, in response to feedback from manpower program operators which indicated that the exclusionary eligibility clause was preventing certain training program graduates from obtaining jobs for which they were otherwise qualified. Specific legislative authorization to attack this problem was obtained in the 1965 amendments to the Manpower Development and Training Act (MDTA). In 1966, E & D projects were implemented at public Employment Service offices in four cities and at six additional sites in order to (a) explore the feasibility and usefulness of a program to overcome the effects of these exclusionary practices on ex-offenders, and (b) to determine the viability and utility of at least one way of doing this: by providing fidelity bonding to some of the groups affected by these exclusionary practices.

It was hoped that if fidelity bonding coverage could be provided for such presumed "high risk" job applicants, the record of the E & D projects would establish (actuarial) bases for determining the costs of providing special coverage and demonstrate that these applicants were no less trustworthy than the average employee. If this hope were realized, it was further anticipated that insurance companies might be persuaded to modify or eliminate the restrictive bonding eligibility practices that had caused Department of Labor officials to be concerned.

Department of Labor officials responsible for these E & D projects gradually reached the conclusion that the availability of bonding was indeed helping significant numbers of individuals to get jobs for which they were otherwise ineligible. Accordingly, the demonstration projects were expanded to additional sites, to the point where bonding services were available in more than fifty cities in twenty-nine states. In 1970, a decision was reached to transfer the expanded E & D bonding effort to the status of an operational national program, making it available through each of the more than 2400 Employment

Service Local Offices in the United States. The changeover took place in 1971, and bonding has continued as a national program to the present time.

Prior to expansion to a nationwide program, the E & D bonding projects were known collectively as the Trainee Placement Assistance Demonstration Projects. Since that time, they have been known as the Federal Bonding Program. For convenience, the phrase "Trainee Placement Assistance Demonstration Projects and the ensuing Federal Bonding Program" is hereafter abbreviated to read "the bonding program".

1.2 Purpose of the Program Analysis Report

The Program Analysis was originally designed to achieve the following five research objectives:

- To provide systematic data concerning the bonding and post-bonding experiences of program participants.
- To provide additional information which may help to explain these differences.
- To provide systematic data concerning the changes in employer attitudes and behavior which followed participation in the bonding program.
- To provide systematic data concerning changes in the attitudes and policies of the fidelity bonding industry which have followed the introduction of the federal bonding program.
- To provide additional information which may help to explain these changes in employers and insurers.*

During the course of researching and preparing the Program Analysis it became clear that it would not be appropriate or even possible to engage in comparative analysis of the data available on the bonding program. However, considerable data were available, or were obtained in the course of this study, which did lend themselves to descriptive program analysis. Consequently, the purpose of this report is to present a descriptive analysis of the manner in which the program was utilized during the period 1966-1974.

* Research Design for an Analysis of the Federal Bonding Program, pp. 9, 16 and 21.

"Program utilization" refers, on the one hand, to the basic characteristics of program operations, such as where bonding occurred, at what rate, for how long, covering how many individuals, in what types of jobs, at what loss ratio and so on. On the other hand, program utilization also refers to the achieved results of those operations for those involved; that is, were employers satisfied with their employees covered under the program? Were commercial underwriters affected by the experience accumulated under the program? Was the employability potential of bondees improved through participation in the program? The operational characteristics are primarily the result of quantitative analysis of data accumulated over the eight years of the program's existence. The results for participants reflect the reported direct effects upon the individuals or organizations affected by the program: the bondees, the employers and the fidelity insurance industry.

1.3 Approach to Data Utilization

The approach to data utilization employed in this study has been a simple one: to draw the best possible conclusions from a wide range of program data of widely varying quality. The issues of fragmentary or inconsistent data, and inconclusive results, will be raised frequently throughout this report. This reflects not only problems of inconsistent reporting in the available (Department of Labor supplied) data, but also low response rates from the bondee and employer follow-up surveys conducted as part of this study.

While it would have been possible to improve the quality of certain individual data sets (e.g. increase the sample sizes) through the application of additional resources, an effort was made to conduct the study in a manner which would utilize a wide range of data sets. The approach employed allocated resources in order to address all of the investigative avenues outlined in the Research Design to a greater or lesser extent.

Data Categories

The types of data which were provided by the Department of Labor or collected by the project team are summarized briefly below. This set of data forms the basis for the information presented in Sections 2.0 and 3.0.

The data which were provided by the Department include the following:

- (1) Monthly print-outs and summaries from the McLaughlin Company which include the name of the bondee, the employer, state or sponsor, the time of bonding, and the number of units of coverage for each bondee in the program.
- (2) MT-110 forms on approximately 1900 of the bondees. These forms include information on the demographic characteristics, employment history and criminal record, if any, of bondees in the bonding program between 1966 and 1970. In addition, MT-110 forms from Illinois on all but two bondees in that State became available late in the project, covering the entire period between 1966-1974.
- (3) Claims data from the McLaughlin Company on the essential information related to the claims submitted by employers. Included in most cases are the name of the bondee, the claimant, the dates of claim and resolution, the amount of claim and amount of payment.

The information collected primarily by Contract Research Corporation includes:

- (1) Information on bondee employment, utilizing the Standard Industrial Classification numbers for business and industry.
- (2) Information on demographic characteristics of Illinois residents, using Census of Population data.
- (3) Illinois inmate characteristics.
- (4) Post-bonding information on employers and bondees.
- (5) Information on the fidelity insurance industry and on a similar fidelity bonding program in Canada.
- (6) Information on related insurance programs funded by Federal agencies.

All study data were received in raw form; much of it was incomplete, and some of it was inaccurate. Therefore, considerable effort was expended simply in preparing the data for processing, including correction of obvious

errors. It was also determined that a rigorous attempt at determining causal relationships between variables was not appropriate because of the gaps which existed in most of the available data. Instead, much effort has been devoted to providing accurate descriptive information, from a variety of perspectives, which constitutes a basic reference document on the bonding program between 1966 and 1974.

In searching for conclusive indicators and/or ~~relationships~~ inter-relationships between different types of data (e.g., claims submitted and length of bonding period) a significant number of tabulations, charts and miscellaneous data items have been accumulated. A concerted effort has been made to cull, integrate and present only the most relevant, useful or thematic results in this report.

1.3.1 The Illinois Case Study

The existence of major data gaps and the uneven quality of the data available for the entire bondee population, led to a decision to supplement the approach contained in the Research Design with a case study approach involving in-depth analysis of the data from the State of Illinois, the only jurisdiction for which MT-110 forms (and hence a wide range of demographic and job related information) are available for all program participants.

As a result of the availability of Illinois MT-110 forms, it has been possible to create a relatively complete profile on the Illinois sub-set of program participants, including:

- Program utilization data on Illinois bondees drawn from the McLaughlin monthly progress reports.
- Claims data on Illinois bondees drawn from the McLaughlin claims reports.
- Selected elements of personal and employment history from the Illinois MT-110 forms.
- The Standard Industrial Classification data on Illinois bondees assigned from SIC manuals.

- The responses of Illinois bondes to a mailed follow-up instrument.

Demographic data on Illinois bondes are presented in Section 2.4. The operational characteristics of the bonding program in Illinois are presented in Appendix F. Additional information concerning the results of the bonding program for Illinois bondes is contained in Section 3.1.1.

It should be noted that no claim is being made as to the statistical representativeness of the Illinois bondes as compared to all the participants in the program. However, Illinois has been in the program since its inception, has had the second largest number of participants, and has had participants with a varied mix of characteristics. It is both reasonable and instructive, therefore, to use Illinois as an illustrative case study for many aspects of the bonding program.

1.3.2 Data Limitations

As indicated above, there are wide variations in the legibility, accuracy, consistency and availability of data on the utilization and results of the bonding program. Additionally, the problem of collecting reliable data using sample survey techniques and existing sources of information was recognized at the outset of this study. Therefore, care was taken to test the feasibility of each aspect of the study (bondee and employer) before initiating the final surveys. These feasibility or pilot studies are presented as appendices to this volume.

In each case, the results of the feasibility studies indicated, that with certain modifications, proceeding to the full scale survey was justified in terms of the research objectives and taking into consideration resource constraints and the lack of other data sources. The table

below presents the data categories and the appendix in which each is discussed.

<u>Data Category</u>	<u>Feasibility Report Title</u>	<u>Appendix Source</u>
McLaughlin Monthly Computer Printouts	<u>Initial Conclusions Drawn From Available Data for an Analysis of The Federal Bonding Program pp. 2-7</u>	Appendix A
MT-110 Forms	Same as above, pp. 8-13	Appendix A
Claims Data	Same as above, p. 15	Appendix A
SIC	<u>Assignment of SIC Categories to Bonded Jobs</u>	Appendix B
Post Bonding Infor- mation from Employers	<u>Report on Employer and Bondee Survey Pretest, pp. 2-5</u>	Appendix C
Post Bonding Infor- mation on Bondees	<u>Report on Employer and Bondee Survey Pretest, pp. 6-16</u>	Appendix C
	<u>Bondee Follow-Up, Summary Pretest Phases I & II</u>	Appendix D
	<u>Update on Bondee Survey Data (Phase IV)</u>	

In short, the conduct of the analysis of the Federal Bonding Program has reaffirmed several common research problems in addition to the well-known drawbacks of research on offender rehabilitation programs in the manpower field: the difficulties of drawing iron-clad conclusions from dated and incomplete data; the virtual impossibility of obtaining follow-up data after individuals have left a program if no provision for such longitudinal follow-up has been made in advance; and the lack of incentive or even reluctance on the part of respondees.

The elapsed time between the period when many individuals were bonded and the conduct of this study has greatly complicated the problem of filling in gaps and correcting errors in the data. The recovery of missing data (data that should have been supplied to the Department in the form of MT-110 forms) proved to be a particularly difficult task; many MT-110 forms were totally unrecoverable. Reconciling discrepancies in other data sources (such as the McLaughlin monthly progress reports) has also proven to be virtually impossible.

The employer follow-up survey was primarily affected by the passage of time (many firms had gone out of business) and some employers' disinclination to confirm participation in the program.

The problems involved in conducting follow-up of ex-offender program participants up to eight years after the fact are even more severe. The high rate of geographic mobility of ex-offenders, combined with the active efforts of many ex-offenders to "cover up their tracks" appear to make it impossible to contact a representative sample of individuals who participated in the program more than a year or two ago. Recent bondees, on the other hand, can provide only limited data on the results of the program; they have little or no post-bonding experience.

The inability to use centralized confidential data sources such as the F.B.I. or I.R.S. made location of a substantial number of individual whereabouts impossible. Reluctance to respond may characterize those ex-offenders who were successful in starting a new life and who have a good ~~reason~~ to lose by being traceable.

It is important to reiterate that these limitations are not unique to the current study. Previous manpower research on the offender or ex-offender population has encountered similar problems. Most instructive

are the experiences of Morgan V. Lewis as related in his presentation on "Finding the Hard-to-Locate", in which he reviewed studies which used various follow-up survey research methods.* In the one study which relied on data comparable to our own (6-7 years) Dr. M. Wright, not studying offenders, had an 8% response rate (very comparable to our own).

Even more relevant to the problems of conducting research with offender populations is the experience discussed in An Evaluation of MDTA Training Provided in Correctional Institutions, Volume III.** In this case, however, substantial resources were available to both the original program and the research effort in the form of longitudinal follow-up information systems and a multi-year large-scale research effort (neither of which were available to the bonding study). In fact, most of the recidivism and employment data used in the report was collected only through the institution of an additional follow-up system based upon making contact with incarcerated inmates and offering incentive payments for maintaining contact after release from prison. Secondly, the inmate-training evaluators indicated the impossibility of locating ex-offenders who had been released for comparatively short periods of time: many of them within the past year. The problems of follow-up are, of course, severely exacerbated when, as in the analysis of the bonding program, efforts were made to locate individuals who had left the program as long as eight years prior to the conduct of the study.

* Morgan, Lewis, "Finding the Hard-to-Locate: A Review of Best Practices," in Evaluating the Impact of Manpower Programs, edited by Michael Borus. (Lexington Books: Lexington, Mass., 1972) pp. 145-154.

** Report prepared by ABT Associates, May, 1971, under Contract 43-9-008-23 to the U.S. Department of Labor, Manpower Administration.

In a recent Manpower Administration evaluation of a Pre-Trial Intervention Program, follow-up was not even attempted with certain classes of study subjects because of locational difficulties.*

It was the opinion of both the Contract Research Corporation research team and the Office of Policy, Research and Evaluation Project Officer, that the investment of more resources to improve response rates was not consistent with the overall program analysis objectives of this study. Within the limitations imposed by the size and length of the study, it was decided to expend the bulk of the data analysis resources on program analysis rather than on attempts to increase data reliability which were considered to have a marginal chance of success. This decision was directly tied to the poor quality of the data originally obtained for the Department of Labor and the low response rate in both the pilot and the actual surveys. In each case, the separate selection of samples resulted in nearly identical response rates. There was no justification for allocating both the substantial time and moderate expense of an additional survey. As should be quite clear from our discussions of each of the data categories in the appendices of Volume II, working with material collected seven and eight years ago for non-research purposes involved substantial problems beyond those specifically inherent in offender research and generally in retrospective data analysis. In summary, therefore, the study team felt it more important to focus its energies on explaining what data was available rather than on chasing statistical purity.

* Pre-Trial Intervention: A Program Evaluation, report prepared by ABT Associates, July, 1974, under Contract 83257206, for the U. S. Department of Labor, Manpower Administration.

1.4 Summary of Findings

The findings of the Program Analysis are discussed in detail in the remainder of this report. As indicated in Section 1.3 above, there are many shortcomings in the data bases from which many of the findings are drawn. Therefore, each finding must be considered within the restrictions imposed by the limitations in the data. In order to aid the reader in placing the findings in the proper context, each finding is followed by an indication of the data category upon which it is based and the section of the text where it is discussed in greater detail.

- 1 . During the period from June 1966 through the end of July 1974, 6655 separate bonds were issued. (Printout data for all bondees, 2.1.1)
- 2 . During this period 6401 individuals were bonded. (The discrepancy can be explained by the fact that 225 individuals were bonded more than once.) (Printout data for all bondees, 2.1.1)
- 3 . Bonding activity occurred disproportionately in a small number of states. Roughly three of every ten bondings took place in California. Fifteen states had ten or fewer bondings. (Printout data for all bondees, 2.1.2)
- 4 . Roughly half the bondees were covered at the maximum rate, \$10,000 of coverage. (Printout data for all bondees, 2.1.1)
- 5 . There has been wide variance in the amount of time individual bondees have been covered. About half the bondees were covered for six months or less. About a quarter were covered for only one or two months. About one in twenty-five was covered for three or more years. (Printout data for all bondees, 2.2.2)
- 6 . There appears to be a pattern in which bonding activity peaks in a given jurisdiction within a year or two of its implementation and then slowly declines. (Printout data for all bondees, 2.2.3)
- 7 . The average cost of the program per bonding has been approximately \$ 150.00. (Printout data for all bondees, 2.2.4)

8. The loss ratio -- the ratio of dollars paid in claims to premiums collected -- for the bonding program is somewhat lower than that which has been reported for comparable activities in the fidelity bonding industry as a whole. This may, in part, be a reflection of the fact that premiums for the bonding programs have been considerably higher than those which are standard. (Default data on all bondees, information supplied by the Surety Association of America, 2.3.1)
9. The "default rate" for the bonding program is under two percent. In other words, claims have been paid on fewer than one in fifty bondees. (Comparable figures are not available for the insurance industry as a whole.) (Default data on all bondees, 2.3.2)
10. The claims filed on bondees appear to be occurring disproportionately among some industrial classifications, particularly automobile service stations. (Default data on all bondees; SIC data on 258 of 295 defaulters, 2.3.2)
11. Once an individual has been bonded for one year, the likelihood of a filed complaint upon that bondee is significantly reduced. (Print-out data for 268 bondees, all of those who had claims filed through 1974, 2.3.2)
12. The vast majority of bondees appear to be ex-offenders. (MT-110 data for all Illinois bondees, 2.1.3)
13. Bondees appear to be predominantly non-white. (MT-110 data for all Illinois bondees, 2.1.3)
14. Bondees appear to be overwhelmingly male. (MT-110 data for all Illinois bondees, 2.1.3)
15. The majority of bondees appear to be under 34. (MT-110 data for all Illinois bondees, 2.1.3)
16. Illinois bondees appear to be typical of Illinois inmates in many respects. (MT-110 data for all Illinois bondees, data on Illinois inmates, 2.1.3)
17. Bondees appear to be better educated than the typical ex-offender. (MT-110 data on Illinois inmates, data on Illinois inmates, 2.1.3)
18. In many respects the Illinois bondees appear to be as well-educated as the average citizen of Illinois. (MT-110 data on all Illinois bondees, 1970 Census data on Illinois, 2.1.3)
19. Only 15-20 percent of those individuals eligible for commercial fidelity bonding are currently bonded. (Data supplied by the Surety Association of America, 3.1)
20. Manufacturing, retail and service appear to be the three major industrial classifications into which the most bondees have been placed. (Print-out data for one-quarter of the bondees, MT-110 data for all Illinois bondees, 3.1.1)
21. Illinois bondees appear to be concentrated in a number of standard industrial classifications disproportionately to the size of those occupations in the total Illinois economy. (MT-110 data on all Illinois bondees, 1970 Census Data for Illinois, 3.1.1)

22. Bondees are working in a wide range of jobs. Some are doing unskilled blue collar work; others are holding down professional and supervisory jobs. (Bondee follow-up mailing, 53 respondents, 3.1.1)
23. The great majority of respondent employers of bondees currently require fidelity bonding for all their employees. (Employer follow-up mailing, 49 respondents, 3.2)
24. The great majority of respondent employers of bondees use blanket bonds. (Employer follow-up mailing, 49 respondents, 3.2)
25. Many respondent employers of bondees have requested waivers of the restrictive bonding clauses from their insurers. (Employer follow-up mailing, 50 respondents, 3.2)
26. A significant proportion of respondent employer requests for waivers of restrictive bonding clauses were turned down by insurers. (Employer follow-up mailing, 23 respondents, 3.2)
27. The respondent employers of bondees were located primarily in inner cities. (Employer follow-up, 35 respondents, 3.2.3)
28. The respondent employers of bondees were primarily in the retail trades. (Employer follow-up mailing, 35 respondents, 3.2.3)
29. The respondent employers of bondees are predominantly large businesses (with twenty or more employees). (Employer follow-up mailing, 35 respondents, 3.2.3)
30. The respondent employers of bondees typically hired three or fewer bondees. (Employer follow-up mailing, 35 respondents, 3.2.3)
31. The respondent employers of bondees overwhelmingly indicated their satisfaction with the performance of their bondees. (Employer follow-up mailing, 35 respondents, 3.2.3)
32. The bonding program does not appear to have been the cause of any significant changes in insurance industry practice relative to bonding ex-offenders. (Interviews with representatives of the fidelity bonding industry, 3.3)
33. The respondent bondees report major increases in salary between their jobs prior to the bonding program participation and their current employment. (Bondee follow-up mailing, 30 respondents, 3.4)
34. The respondent bondees report job retention which is considerably greater than is suggested by the data on time of bonding. (Finding # 6). The majority of bondees held their bonding jobs for more than one year; a significant proportion of them report retention of four years or longer. (Bondee follow-up mailing, 63 respondents, 3.4)

35. There are some indications that an appreciable number of bondees may have been listed on the monthly progress reports as still bonded when in fact they had left their bonding program jobs. (Bondee followup mailing, 63 respondents, Section 3.4)
36. The great majority of respondent bondees feel favorably towards the bonding program. A similar proportion report that they feel that the program was useful to them in getting future jobs. (Bondee follow-up mailing, 32 respondents, Section 3.4)

1.5 Conclusions

Based on the findings presented in Section 1.4, and taking account of the strengths and weaknesses of the data upon which these findings are based, two basic conclusions can be reached:

1. The bonding program appears to be achieving significant results for at least some ex-offenders at a relatively low cost. But the data are not good enough to develop definitive estimates of program impact.
2. The wide discrepancies in program utilization and results among the bondees suggest that the program has worked considerably better for some bondees than for others. Efforts to pinpoint who is best served and why this occurs should enable the Department to improve the program to reach its full potential in improving the employability of ex-offenders.

These conclusions are based upon ten supporting conclusions. Each of these is presented and explained below:

3. The data do not permit judgments concerning the overall satisfaction of program participants, but a majority of those bondees and employers for whom information is available have indicated strong satisfaction with the program. Similar satisfaction has been expressed by the officials of the public Employment Service and the insurance broker which has serviced all bonding contracts to date.

The attitudes of employers and bondees toward the bonding program are discussed in Sections 3.2.4 and 3.4.3 respectively. In each case, the respondents to a mailed instrument reported a good deal of satisfaction; many employers indicated a willingness to hire additional ex-offenders. The satisfaction of the Employment Service and of the insurance contractor were determined in the course of research for the History of the Bonding Program and are discussed in that document.

4. Evidence suggests that the basic expectation of the bonding program designers has been met, namely that the bonding program has helped large numbers of individuals to get jobs which they were barred from holding because of the restrictive clause in standard blanket bonds.

A good deal of the evidence for this conclusion is based upon analysis of all bondees and is therefore fully trustworthy. Some of the data are based only on Illinois bondees and thus the conclusion depends in

in part upon an assumption that the Illinois bondees are typical. Thus, for example, the vast majority of bonding program participants in Illinois have been ex-offenders and (at least in Illinois) these participants appear to be remarkably typical of the ex-offender population as a whole in terms of demographic characteristics.

Additional findings supporting this conclusion are based upon the responses of fewer than fifty employers to a mailed instrument. As such, there is some question as to how far they can be generalized. Nevertheless, as stated in Section 3.2, a majority of the employer respondents required bonding for all of their employees, thereby ruling out the possibility that they would employ anyone who could not get such coverage. The importance of the restrictive clause in the standard blanket bonds is underscored by the fact that the majority of the employer respondents indicated that they used blanket bonds.

5. There are some indications that the bonding program has helped participants to get better jobs than they would otherwise have gotten.

As is discussed in Section 3.4, the results of the bondee followup mailing indicate that the majority of responding bondees report significant increases in salary between their jobs prior to the bonding program and their current employment. A majority of these bonding program respondents report retention on the bonding job of one year or more; job satisfaction is one factor which may help to explain this finding. It should be stressed however, that these findings are based upon a four to six per cent response rate to our mailing (and represent only about one percent of the total number of bondees). Therefore, extreme caution must be used in generalizing from this group to the entire bondee population.

6. The expectations of the bonding program designers with respect to the trustworthiness of most ex-offenders appear to be justified.

As is discussed in Section 2.3.2, approximately one in fifty bondees has been the subject of a paid claim, yielding a "2% default rate." There is no way to compare this figure with the "default rate" in standard commercial bonding, but the result is considered significant in itself by Department of Labor staff, given the criminal records of the vast majority of bondees.

7. There is no objective basis in the available data for resolving the dispute between employers and insurers as to whether or not the former tend to use "unbondability" to cover up unwillingness to hire ex-offenders.

Insurance industry spokesmen have indicated that there is less of an "unbondability" problem than is often assumed; they maintain that, in most cases, they are willing to make exceptions to the exclusionary clauses whenever employers give them good reason to do so. This position has been taken by a number of individuals both in the industry trade association and in the fidelity bonding departments of America's largest insurers.

On the other hand, as indicated in Section 3.2, the respondents to the employer followup questionnaire indicated that requests for exceptions are turned down about as often as they are approved.

8. There have been no major changes in fidelity bonding industry practices which can be attributed to the bonding program.
9. There is little likelihood of fidelity bonding industry change in the future based upon the criterion of profitability of bonding "unbondables".

Although the analysis of the loss experience of the program in Section 2.3.1 indicates that the loss ratio for the bonding program is lower than the comparable ratio for the insurance industry as a whole, there are a number of unverifiable points made by leaders of the insurance industry which tend to reduce the importance of this finding from the insurers' point of view.

10. A number of important questions concerning the need for fidelity bonding and the impact of the program remain unanswered at this point. These questions involve:

- a. The incidence of fidelity bonding in different occupational groups and geographic locations.
- b. The average level of coverage of bonding for specific jobs and industrial categories nationwide and within specific geographical areas.

As is indicated in Section 3.2, the Surety Association of America has only limited data on the incidence of fidelity bonding nationwide and in specific industrial classifications. Although the Surety Association estimates that only 15-20% of those who might be covered by such bonding are in fact covered, there are no comprehensive statistics concerning variations in utilization of fidelity bonding in different industries and geographic regions. Similarly, there are no available statistics concerning the average amounts of coverage. The fact that roughly half the bondees were covered for the maximum amount (\$10,000) suggests that the limit may be too low and that bondees may be excluded from certain jobs in certain industries because of this limitation. The above-cited data gaps make it impossible to resolve this issue.

11. Lack of appropriate data makes it difficult to interpret the wide variation in program utilization definitively. The available data raise--but fail to resolve--such questions as the following:

- a. Why are there such wide variations in the proportions of bonding activity in different occupational groups and geographic areas? Are these disproportions reflective in any way of Employment Service practices?
- b. Why are there such variations in length of time bonded? Why, in particular, were one-quarter of the bondees covered for only one or two months? If the bondees left their employers after this short period of time, what can be done to improve the bonding program retention rate? On the other hand, given the finding that a significant proportion of respondents to the bondee followup mailing reported retention of four years or more, is there anything that can be learned from these "exemplary" placements that can be used to improve the placement process for others?

- c. Why are there such variations in the proportions of filed claims among different industrial classifications and geographic areas?

Many of these questions could be answered through an experimental effort to keep detailed records of job development and other contacts with potential employers of bondees and improved periodic followup with bondees and their employers. (The finding that nearly one in six respondents to the bondee followup mailing indicated that they left their bonding employment prior to the recorded termination date on the McLaughlin monthly progress reports also suggests that additional attention may need to be paid to followup activities.)

This experimental followup activity could begin after the initial referral and could continue both while the bondee remains on the job and for several years thereafter.

12. There is some evidence that the program operates more actively when expansion or modification focuses attention on the bonding program at the local level.

As is discussed in the History of the Bonding Program, it was believed that the initial failure of the bonding program to produce more placements was, in part, the result of lack of efforts to "push" the program among ES staff and among employers. The December, 1966 meeting of bonding Sponsors which stressed the need to promote the program was followed by a pronounced increase in bonding activity.

As is discussed in Section 2.2.3, there appears to be a general pattern in utilization of bonding within a state or locality: bonding activity peaks within a year or two of implementation of the project, then slowly declines. Analysis of placement data suggests that this pattern was interrupted by the decision to "go national" and the subsequent issuance of new administrative directives. Thus, for example, six of the states had statewide bonding

activity prior to 1971, when the program was expanded to a national scope. Bondings went up during the first year of the national program in five of the six states (the one state that did not fit this pattern witnessed an enormous jump in bonding activity the year after). This finding may be caused by a number of factors, but certainly the attention given to the program by ES staff is likely to be one of them.

1.6 Recommendations

The following recommendations are based upon data presented in the History of the Federal Bonding Program as well as the data contained in this Program Analysis. Recommendations for Departmental action are presented first; they are followed by recommendations for further research on the program.

1.6.1 Action Recommendations

1. The Department of Labor should continue funding fidelity bonding activities utilizing an underwriter/contractor and the current program design and administrative structure pending the results of research which can suggest methods for improving program effectiveness.

While definitive conclusions on the results of the bonding program cannot be drawn from the available data, the program does appear to have achieved significant results for at least some ex-offenders, at a relatively low cost. Available evidence suggests that the program has enabled many ex-offenders to get jobs which they could not otherwise have obtained. Bonded earnings and retention data, as well as the satisfaction expressed by bondees and their employers, provide strong indications of positive impact.

Finally, and perhaps most importantly, the program does provide a service which does not appear to be duplicated anywhere else. Without such a program, there would apparently be no way in which large numbers of ex-offenders could be placed in jobs which require bonding.

On the other hand, the variability in program outputs suggests that there is a potential to effect changes which can improve overall program performance in many respects. Some of the directions which should (and should not) be taken have become clear during the conduct of this study. Thus,

for example, the program designers had been considering the possibility of "eliminating the middle man" and creating a bonding program in which the United States Government provides insurance coverage directly. There is little evidence to support such an alternative at the present time. Calculation of the costs of this option is beyond the scope of this study, but as is noted in Appendix H, the General Accounting Office recently recommended rejection of the "self-insurance" option in the case of a related U.S. Government surety bonding program. A careful study of the costs and manpower requirements for U.S. Government "self-insurance" should be completed before this alternative is given serious consideration.

On the other hand, there are no data whatsoever concerning many other administrative arrangements for the program. Suggestions for collecting needed data are included in Section 1.6.2 below.

2. The Department of Labor should immediately implement procedures for improved followup of bondees.

Improved followup would serve both immediate operational and longer range research purposes. Operationally, improved followup could become an integral part of a broader system to insure that bonding program funds are being effectively spent. Roughly one in six respondents to the bondee followup mailing indicated that they had left their bonding jobs prior to the date recorded on the McLaughlin monthly progress reports. Regardless of whether or not the one in six ratio is representative of the bondee population as whole, this finding points up the fact that there is a potential for misallocation of funds in the "bonded until further notice" system in which an individual is covered under the program until the employer takes some positive action to terminate the bond. Since the employers are not paying anything for the bond, they have little incentive to report terminations promptly.

Consideration should therefore be given to development of a followup system in which a bondee is dropped from the rolls unless evidence is received stated that he is still employed at the bonding job. This system could also be adapted to accomplish the research purposes described in Section 1.6.2 below in which the data from improved followup could be used to help plan and implement improved administrative procedures throughout the counselling, placement and followup processes.*

While the benefits from improved followup are clear, the costs of such activity are not. The Department may, therefore, wish to test a variety of followup procedures on a pilot basis before selecting the one to be implemented nationwide.

3. The Department of Labor should review the results of this study with the leadership of the fidelity bonding industry in order to explore whether or not any further efforts at institutional change appear worthwhile.

It is by no means clear that contacts with the leadership of the Surety Association of America and fidelity bonding specialists among leading underwriters will result in any concrete benefits to the program. But the potential exists. Possible benefits include the following:

- Provision of "technical assistance" to the Department by insurers concerning possible improvements in the design and administration of the Federal Bonding Program.
- Discovery of means whereby underwriters might be persuaded to increase the frequency of their coverage of ex-offenders on a case-by-case basis, or develop some version of "assigned risk pools" for ex-offenders.

While it does not seem likely that major changes in insurance industry practice will be promoted by the data contained in this Final Report, the reactions of industry experts to these data may provide the Department with useful insights in refining and improving the program model. Meetings on this

* These further uses of follow-up data are discussed in Section 1.6.2 below.

topic may well pave the way for further government-industry cooperation. At minimum, such meetings would meet the expressed desires of fidelity bonding specialists to learn more about the Federal efforts.

The Canadian experience with fidelity bonding of ex-offenders provides some (albeit speculative) evidence that American insurers may be persuaded to cover a larger proportion of ex-offenders than they now are willing to accept. As is discussed in Appendix G, Canadian insurers have entered into an agreement with the government to consider applications from ex-offenders if they are recommended by parole officers, probation officers, or members of voluntary after-care agencies. This voluntary program has served only a limited number of ex-offenders, but virtually all of these recommendations have been accepted. There would, therefore, seem to be at least potential for a similar arrangement in the United States.

1.6.2 Research Recommendations

Despite the conclusion that the bonding program appears to have demonstrated its utility, the data suggest a number of areas where further research might promote refinement of the program design and administrative structure in order to improve program performance. In many cases, basic data concerning the role of fidelity bonding in the economy are not available. In order to determine whether or not the bonding program is currently reaching all those who might benefit from it, the following recommendation should be implemented:

4. The Department of Labor should carry out research to answer the following questions:
 - a. What is the scope of fidelity bonding requirements in the United States?

- b. How do fidelity bonding requirements vary among different industrial classifications and geographic areas?

In addition, there are a number of findings concerning variations in program utilization which can be explained by several factors, only some of which relate to program design and administration. In order to distinguish between these and other factors:

5. The Department of Labor should carry out research to answer the following questions:
 - a. Why has bonding activity been disproportionate among specific industrial classifications and geographic locations?
 - b. Why has the claims experience been disproportionate among certain industrial classifications?

As was indicated in Section 1.5 of this volume, there is a wide range of findings which raise questions concerning the specific elements of the bonding program model. In order to answer them:

6. The Department of Labor should carry out research to answer the following questions:
 - a. Why do significant proportions of bondees apparently leave their bonding jobs after only a month or two?
 - b. To what extent is the bonding program information system failing to provide up-to-date information concerning tenure of individuals in bonded jobs?
 - c. Why do some placements result in significantly longer retentions than do others?
 - d. To what extent has the \$10,000 limit excluded bondees from certain jobs?

Many of these questions are unanswerable today because of difficulties in contacting bondees and employers many years after they have concluded participation in the program. The followup activities described in recommendation #2 above should, therefore, also be designed to provide (at least on a pilot basis) the kinds of information needed to answer these questions.

Completion of this research would enable the Department to promote strengthening of the counselling, placement, and employer relations activities of the public Employment Service through provision of information on:

- The kinds of jobs which usually require bonding and those which do not
- The kinds of jobs in which bondees have been most "successful", i.e., those with lower turnover, lower default, and higher pay.

This in turn would give job developers a "tool" which could be used in creating a wider pool of openings suitable for bondees and for planning of employer contact activities. Similarly, it would provide additional guidance to ES counselors in their efforts to find satisfactory placements for ex-offenders. In short, collection and analysis of followup data should enable the Employment Service to minimize inappropriate referrals and hence achieve its twin objective of improving service to employers and service to disadvantaged job seekers.

With the collection of systematic followup data, it would then be possible to carry out the following recommendation:

7. The Department should seek to determine whether or not there exist correlations between specific administrative procedures and "success" in the bonding program.

Examination of the Employment Service Local Office procedures by which the bonding program is administered is beyond the scope of the current research. But the wide variations in program outputs discussed in this volume of the Final Report raise the possibility that some Sponsors have developed procedures which contribute to better placements and longer retention.

Once better output data is available, it should be possible to determine whether or not whether or not there are relationships between any measurable outputs and such administrative variables as (a) whether or not bondees are treated as "special applicants" and referred to specialists and (b) the presence

or absence of related ex-offender activities in the State ES or Local Office such as the Model Ex-Offender Program (MEP). While it is unlikely that such research will produce definitive results, it may well suggest future directions for administrative strengthening of the bonding program.

The "categorical" nature of the bonding program as it is now administered suggests that it would be useful to explore ways in which some elements of decentralization can be included in the program model:

8. The Department should develop and test the feasibility of alternative bonding models which give a larger role to CETA Prime Sponsors.

There is a good deal of uncertainty concerning the appropriate role for the bonding program under CETA. This uncertainty results from the reference to "assisting in securing bonds" in the Title I listing of activities which may be included in a Prime Sponsor's comprehensive manpower program. At the same time, because of the preponderance of ex-offenders in the bonding program, authority for fidelity bonding activities appears also to be present under the CETA Title III reference to "procedures to insure that (offender) participants are provided with such manpower training and support services which will enable them to secure and obtain meaningful employment."

Although these two bases for bonding authority create some ambiguity, it appears extremely unlikely that any Prime Sponsor would be able to contract for pre-arranged commercial bonding for its CETA trainees. Pending breakthroughs in the fidelity bonding industry, it would thus seem necessary for anyone wishing to arrange for bonding of ex-offenders to develop a nationwide contract with an underwriter similar to the existing Manpower Administration contract.

In short, it is difficult to conceive of an administrative structure for the bonding program which does not include a strong federal role. But the

exact nature of that role, and the relationship of the Department of Labor National Office bonding staff and CETA Prime Sponsors are by no means certain.

In planning the future relationship between the Department and CETA Prime Sponsors in the administration of the bonding program, it will be important to remember the language of the Comprehensive Employment and Training Act of 1973 and supporting regulations which stress the need to avoid duplication of efforts and to fund delivery agents of proven effectiveness.

Given this legislative mandate and the available data on bonding program administration, a wide range of options remains. Under one such option, bonding would continue to be available through all 2400 Local Offices of the Employment Service, as is currently the case, but Prime Sponsors would have the option of designating an additional agency as a bonding Sponsor as well. In cases in which Prime Sponsors are heavily utilizing the Employment Service for placement, they would have no reason to designate any additional sponsors. But if the Prime Sponsors were using other agencies to accomplish the placement function, they would have the option of designating that additional agency as a bonding Sponsor as well. In all cases, the bonding units would be supplied "free" as part of a National Office appropriation, and the bonding Sponsor would be responsible for absorbing the administrative costs of the program.

The advantage of such a system is that it would give Prime Sponsors additional flexibility in utilization of the bonding program, enabling them to use agencies other than the Employment Service if they chose to do so. The disadvantages would include the additional administrative complexity resulting from the inclusion of additional bonding Sponsors, although this might be minimized by utilizing a Statewide intermediate Sponsor playing a role similar to that which State ES offices currently play -- or continuing the use of the

State ES agency as sponsor for all bonding in the State -- whether bonding was carried out by ES Local Offices or not.

Other options which entail using the availability of "free" bonding slots to Prime Sponsors as an incentive to promoting offender manpower activities also appear feasible and worthy of further consideration.

Finally, the need to conduct the research described above in a scientifically rigorous manner and to communicate the results of this research to key decision-makers in the insurance industry and business community suggests that the research process could be strengthened if the Department adopts the recommendation that:

9. The Department should plan and implement the above-described research utilizing an advisory committee composed of academic experts in manpower and criminology as well as public and private sector participants.

The presence of academics on the committee would help to insure that the latest research in offender rehabilitation is utilized. The public and private sector participants could provide practical input into the research design and data interpretation and could disseminate findings to their respective organizations.

2.0 OPERATIONAL CHARACTERISTICS OF THE FEDERAL BONDING PROGRAM

Section 2 describes in some detail the operational characteristics of eight years of program activity. That is, the section presents data on how many individuals participated in the program, from where, at what time, for how long, at what cost in premiums, and so on.

It should be recalled that this report does not constitute an evaluation of the program; however, trends in the data are pointed out wherever appropriate in order to suggest areas for further investigation. Basic demographic characteristics for Illinois bondees are presented as the best available indicators of such characteristics for all bondees.

2.1 Bonding Program Participants

This subsection summarizes the following characteristics:

Number of bonds issued, number of individuals covered, and geographic patterns of bonding activity. Additional characteristics of program utilization are discussed in Section 2.2.

2.1.1 Number of Bonds Issued, Individuals Covered

Analysis of the McLaughlin monthly progress reports indicates that 6655 bonds were issued under the Trainee Placement Assistance Demonstration Projects and their successors in the Federal Bonding Program, between the program startup in June 1966, and July 1974. As is shown in Exhibit 2-1 below, roughly three-eighths of these bonds were issued during the time when bonding was an experimental program administered by the Office of Policy, Evaluation and Research; the remainder took place under the national program administered by the United States Employment Service.

These 6655 bonds were issued to a total of 6401 individuals. The discrepancy between these two figures is explained in Exhibit 2-2. Of the 6401 bondees,

225 (or 3.5 percent of them) were bonded two or more times; five were bonded four or more times. One individual was bonded six times.*

EXHIBIT 2-1

BONDING ACTIVITY BY PROGRAM STATUS (N=6655)		
	<u>Bonds Issued</u>	<u>Percent</u>
Trainee Placement Assistance Demonstration Projects - 1966-1970	2529	38.0
Federal Bonding Program 1971-1974	4126	62.0
TOTAL	6655	100.0
Source: McLaughlin Monthly Printouts		

2.1.2 Geographical Patterns of Bonding Activity

Within a few months of the implementation of the first Trainee Placement Assistance Demonstration Projects, OPER and USES officials became aware of the fact that new bondings were occurring disproportionately at a limited number of sites. On-site reviews of these initial bonding Sponsors led to a conclusion that bondings were occurring most often where Sponsors were taking an active role in promoting the program among their own staff and in the community.**

This pattern of disproportionate utilization of the program has persisted throughout the history of the program. As is shown in Exhibit 2-3, more than one-half of the bondings throughout the history of the program have taken place in just four states, California, Illinois, New York and Oregon. California alone

* This discrepancy between the number of bonds and number of bondees complicates the analysis of much of the bonding program data. All of the data on the universe of bondees presented in this report should, more properly, be called data on "bondings", some of which have involved the same bondees. For purposes of simplicity, however, the term "bondees" has been utilized.

** History of the Federal Bonding Program, pp. 83-91.

EXHIBIT 2-2

NUMBER OF TIMES BONDED (N=6655)		
	<u>Bondees</u>	<u>Bonds Issued To These Bondees</u>
Once	6176	6176
Twice	203	406
Three Times	17	51
Four Times	4	16
Five Times	0	0
Six Times	1	6
Total	6401	6655
Source: McLaughlin Monthly Printouts		

has accounted for nearly thirty percent of the total bondings, and has had almost four times as many bondings as its nearest competitor state.

This concentration of bonding activity can be explained in part by the fact that many of those states with the highest numbers of bondees have participated in the program for longer periods of time. For example, the three leaders in total bondings, California, Illinois, and New York, were participants in the initial Trainee Placement Assistance Demonstration Projects in June, 1966. Each of them has maintained a statewide operation since March, 1967. The fourth state, Oregon, also achieved statewide status during the experimental phase of the program and thus also gained a "head start" on many other states of similar size.*

*The expansion of the bonding program is discussed in detail on pages 65-83 of the History of the Federal Bonding Program.

EXHIBIT 2-3

GEOGRAPHIC DISTRIBUTION OF BONDING PROGRAM UTILIZATION

(June, 1966 - July 31, 1974)

<u>State</u>	<u>Number of Bondings</u>	<u>Percent</u>	<u>State</u>	<u>Number of Bondings</u>	<u>Percent</u>
California	1946	29.8	N. Carolina	39	.6
Illinois	542	8.1	Virginia	39	.6
New York	444	6.6	Nebraska	29	.4
Oregon	382	5.7	Nevada	23	.3
Michigan	336	5.0	Montana	21	.3
Missouri	321	4.8	Maine	21	.3
Texas	304	4.6	Kentucky	21	.3
Ohio	286	4.3	S. Carolina	14	.2
Georgia	169	2.5	Louisiana	13	.2
Indiana	154	2.3	Hawaii	11	.2
Washington	162	2.4	W. Virginia	7	.1
Alabama	172	2.6	Tennessee	7	.1
Dist. of Columbia	221	3.3	Idaho	7	.1
Florida	123	1.8	N. Dakota	6	.1
Massachusetts	118	1.8	Vermont	4	.1
Pennsylvania	111	1.7	N. Hampshire	4	.1
Arizona	103	1.5	Arkansas	3	*
Connecticut	76	1.1	Rhode Island	3	*
Maryland	56	.8	Oklahoma	2	*
Wisconsin	51	.8	Wyoming	1	*
New Jersey	49	.7	Delaware	1	*
Colorado	44	.7	Alaska	1	*
Minnesota	44	.7	Puerto Rico	0	--
Utah	42	.6	Mississippi	0	--
Kansas	41	.6	South Dakota	0	--
Iowa	41	.6			
New Mexico	40	.6			
			TOTAL	<u>6642</u>	<u>99.7</u> **

Source: McLaughlin Monthly Printouts

**Totals may not equal 100 due to rounding.

Exhibit 2-4 demonstrates that during the period since January 1, 1971, when the program has been available nationwide, the bondings are only slightly more dispersed. In the post-1970 period, more than half the bondings are still accounted for in only six states.

At the other extreme, fourteen states (and Puerto Rico) have had fewer than ten bondings each, despite the fact that the program has been available in each of them since January 1, 1971. There have been no bondings whatsoever in Mississippi, Puerto Rico and South Dakota.

In general, the State Employment Services in these jurisdictions have reported that there is little need for the program where it is not being used. They have reported that their staff have been made aware of the program, but due to employer and insurance company practices there is little need to utilize the bonding program.

2.2 Additional Characteristics of Utilization

The characteristics of utilization of the bonding program discussed in this subsection of the report include: the amount of money for which bondees have been covered, the length of time for which they have been covered, additional patterns of bonding activity, and program costs.

2.2.1 Rate of Coverage

As originally implemented, the Trainee Placement Assistance Demonstration Projects provided for variable rates of coverage ranging from \$500 per month (one unit) to \$5000 per month (ten units). After one year of operation of the demonstration program, the maximum coverage was raised from \$5000 to \$10,000 per month (twenty units).

Despite this flexibility, Exhibit 2-5 demonstrates that the majority of bondees have been covered at the maximum allowable level. In all, roughly one-half of the bondees have been covered for \$10,000; a fifth have been covered for \$5000; and the remainder for less than \$5000.

EXHIBIT 2-4

GEOGRAPHIC UTILIZATION OF THE BONDING PROGRAM

(January 1, 1971--July 31, 1974)

<u>State</u>	<u>Number of Bondings Since 1971</u>	<u>Percent of State Total Bonded Since 1971</u>	<u>Percent of Total Bondees Since 1971</u>
California	924	47.5	22.4
New York	298	67.6	7.2
Michigan	285	84.8	6.9
Oregon	244	63.9	5.9
Illinois	229	42.3	5.5
Texas	229	75.3	5.5
Ohio	189	66.1	4.6
Washington	162	100.0	3.9
Indiana	154	100.0	3.7
Georgia	125	74.0	3.0
Florida	123	100.0	3.0
Arizona	103	100.0	2.5
Pennsylvania	92	82.9	2.2
Missouri	90	28.0	2.2
Massachusetts	77	65.3	1.9
Alabama	47	30.7	1.1
District of Columbia	33	23.7	.8
Remaining 35 States	722	17.5	17.5
<u>Total</u>	<u>4126</u>		<u>99.8</u>

Source: McLaughlin Monthly Printouts

EXHIBIT 2-5

RATE OF COVERAGE OF BONDEES
(Per Month)

(N=6652)

<u>Units</u>	<u>Value</u>	<u>Number</u>	<u>Percent Of Total</u>
1-4	\$2000 or less	1056	15.9
5	\$2500	482	7.2
6-9	\$3000-\$4500	252	3.8
10	\$5000	1435	21.6
11-19	Between \$5500 and \$9500	66	1.0
20	\$10,000	3361	50.5

Total 6652 100.0

Source: McLaughlin Monthly Printouts

2.2.2 Length of Time Bonded

The original program directive for the Trainee Placement Assistance Demonstration Projects called for a one-year limit on coverage. This restriction was eliminated in June, 1967, the same time that the coverage limit was raised. At that time there was an expectation by the OPER program administrators that bondees would not be covered indefinitely; instead it was hoped that after a year or eighteen months of successful participation in the program, employers would be likely either to press their regular insurers to cover bondees, or to agree to employ them without any additional bonding requirements.

In December 1970, the United Bonding Company agreed to provide coverage at "comparable commercial rates" for bonding program participants who had

successfully completed eighteen months in the program (i.e., participated eighteen months without default).*

In fact, the average bondee participated in the program considerably less time than either the one year or eighteen month limits. The median time of bonding for bondees who had terminated by July 1974 was 6.19 months.** (Due to a number of especially high periods of bonding -- as discussed below -- the mean period of bonding was somewhat higher 9.87.)

Exhibit 2-6 demonstrates that a large proportion of bondees was covered in the program for a very short period of time. About a quarter of all (terminated) bondees were in the program for only a month or two; more than four of every ten were in the program for four months or less.

There is no available data which indicates why most bondees terminated so quickly. The logical alternatives include the following:

- The bondee left the bonded job voluntarily.
- The employee left the bonded job at the employer's request.
- The bondee kept the job and the employer decided to drop the requirement that he be bonded.
- The bondee kept the job and the employer persuaded his insurer to include the individual in an establishment-wide blanket bond.

It would seem unlikely, however, that a "successful" employment record of four months or less would be enough to persuade many employers or insurers to "take a chance" on the bondee. Therefore it seems reasonable to believe that many bondees terminated their employment either by their personal volition

*

Such coverage has been provided in about 60 cases since that time.

** Calculations of amount of time bonded have, in general, been restricted to those bondees who had terminated by July 1974. Inclusion of individuals who were still participating in the program would have biased the results by including data for more than 1000 bondees whose eventual time of bonding at termination could be considerably longer than the amount of time during which they have been participating to date.

EXHIBIT 2-6

LENGTH OF TIME BONDED

(N=6644)

<u>Months</u>	<u>Terminated</u>		<u>Still Bonded</u>		<u>Total</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
1	77	6.5	539	9.9	616	9.3
2	87	6.9	928	17.0	1015	15.3
3	82	7.0	588	10.8	670	10.1
4	66	5.6	450	8.2	516	7.8
5	50	4.2	395	7.2	445	6.7
6	31	2.6	289	5.3	320	4.8
7-8	90	7.7	436	8.0	526	7.9
9-10	104	8.9	297	5.4	401	6.1
11-12	82	6.9	273	5.0	355	5.3
13-14	61	5.2	297	5.4	358	5.4
15-16	54	4.5	130	2.4	184	2.8
17-18	64	5.4	142	2.6	206	3.1
19-20	41	3.5	170	3.1	211	3.2
21-22	22	1.8	114	2.1	136	2.1
23-24	34	2.9	81	1.5	115	1.7
25-30	75	6.4	143	2.6	218	3.1
31-36	34	2.9	74	1.4	108	1.6
37-48	44	3.9	85	1.6	129	2.0
49-60	34	3.0	26	.5	60	.8
61-72	30	2.7	8	.1	38	.3
73-93	17	1.5	0	0	17	.2
Total	1179	100.0	5465	100.0	6644	99.6

Source: McLaughlin Monthly Printouts

or by that of the employer. (One employer directly stated that turnover among bonding program participants was high, but that it was not higher than other workers in the same position.)

At the other extreme, it can also be noted that 1032 bondees, representing 15.5 percent of all bondees, participated in the program for more than eighteen months. Two hundred and forty-four bondees (3.7 percent of the total) were bonded for longer than three years.

As was the case in the early terminees, it is impossible to determine precisely why these individuals remained in the program for so long a time. This might have occurred for any of the following reasons:

- The employer was not informed of the suggested eighteen month limit.
- The employer was informed of the suggested eighteen month limit and tried to get alternative coverage for the bondee, but was unable to.
- The employer was informed of the eighteen month limit, but was unwilling to pay for such coverage at standard commercial rates when he could get "free" coverage under the bonding program.*

2.2.3 Other Patterns of Bonding Activity

In reviewing the distribution of new bondings over the various geographic jurisdictions and over time, a number of patterns emerge. As was indicated in Section 2.1.2, bonding activity has occurred disproportionately in a small number of states.

It is not possible, however, to translate these statistics into estimates of the relative effectiveness with which the various Employment Service offices were administering the program. Differences in number of bondings could be expected to vary with the effectiveness of program administration, but they could also be a function of at least the following additional

*As indicated above, standard coverage at commercial rates has been an available option only since December 1970.

variables:

- Local employer attitudes toward requiring bonding of their employees regardless of whether or not they have criminal records.
- Local employer attitudes toward hiring ex-offenders regardless of whether or not they can be bonded.
- Attitudes of insurers toward granting exemptions from restrictive clauses.
- Local economic conditions which might prompt an employer to raise or lower his hiring standards.
- Population of ex-offenders and other hard-to-bond individuals within a particular geographic area.

The kinds of data required to adequately isolate these regional variations necessitate a research effort beyond the scope of the current investigation, but which might be of use in future attempts to identify causality of regional patterns of utilization.

The post-1970 data for the Federal Bonding Program are particularly illustrative of the variations among years and states because the program was operational in roughly the same number of sites throughout the period.* The total number of new placements reached its maximum in the second year of the national program, and appears to have entered into a period of decline since that time. The data for 1974 are based upon an extrapolation, but it appears that the total number of bondings is not appreciably higher than that of 1971, the first year of the national program. Exhibit 2-7 illustrates the trends in new bondings.

*Interpretation of the data concerning the earlier E & D phase of the bonding project is complicated by the fact that the program was continuously expanding throughout this period. Thus, for example, a lessening of bonding activity at any one site would be camouflaged by the surge of bondings from sites where implementation was more recent. It can be noted that the total number of bondings for 1969 was not appreciably higher than that for 1968, despite the fact that there was a major expansion of the program in the latter year. There was no expansion in 1970, however, and this year saw a significant downturn in bonding activity.

EXHIBIT 2-7

NEW BONDINGS PER YEAR

<u>Bonding Assistance Demonstration Projects</u>	<u>Number</u>	<u>Percent</u>
1966	74	2.9
1967	368	14.6
1968	712	28.2
1969	728	28.8
1970	647	25.6
TOTAL	<u>2529</u>	<u>100.1</u>

<u>Federal Bonding Program</u>	<u>Number</u>	<u>Percent</u>
1971	981	23.8
1972	1345	32.6
1973	1198	29.0
1974*(through July only)	602	14.6
TOTAL	<u>4126</u>	<u>100.0</u>

*An estimate for new bondings in 1974 can be derived in the following manner:

- (1) Analysis of the data indicated that there were 602 new bondings during the first seven months of 1974.
- (2) Analysis of new bondings for calendar years 1971, 1972 and 1973 indicated that bonding takes place at a fairly constant rate throughout the year.
- (3) Therefore, an estimate for new bondings for calendar year 1974 can be derived by multiplying 602 by 12/7 to project the continuation of the rate of bonding experienced in the first seven months of the year to the year's end. This yields an estimate of 1032 bondees.
- (4) The estimated 1032 bondees for all of 1974 would yield the following figures for 1971-1974:

	<u>Number</u>	<u>Percent</u>
1971	981	21.5
1972	1345	29.5
1973	1198	26.3
1974	<u>1032</u>	<u>22.7</u>
TOTAL	<u>4556</u>	<u>100.0</u>

Source: McLaughlin Monthly Printouts

This same pattern of decline appears when the unit of analysis is shifted to the state level. Five of the seven states with the greatest total number of bondings witnessed a significant decline in bonding activity between 1972 and 1973; the rate of bonding activity further declined during (the first seven months of) 1974 in four of the five, and in one of the remaining two as well.

Seven of the next ten most active states reported record numbers of bondings in 1973. But in all of these states the rate of bonding declined during the first seven months of 1974.

As indicated earlier, the reasons for these varying patterns over time and across states are not clear. The declines may represent a slackening of the vigor with which the program is promoted, but they may also represent changes in the need for bonding.

2.2.4 Program Costs

Analysis of the data included in the monthly progress reports indicates that the total number of units utilized by individual bondees also varied greatly. As is shown in Exhibit 2-8, nearly a quarter of the bondings required twenty-five or fewer units. At the other extreme, eight bondees consumed more than 1400 units apiece. Because of these extreme values, there is a wide variation among the measures of central tendency. The median unit usage was 68.03, while the mean was more than twice that amount, 146.32 units.

Using the latter figure and an average price per unit of less than one dollar,* it can then be said that the average cost of the program for a typical bondee was under \$150.00.

*Costs per unit were calculated by dividing total costs for the program by the amount of units utilized (including units supplied at no cost).

EXHIBIT 2-8

UNIT UTILIZATION PER BONDEE

(N=6642)

<u>Units Used</u>	<u>Number of Bondees</u>	<u>Percentage</u>
1-25	1557	23.4
26-50	1324	19.9
51-75	646	9.7
76-100	711	10.7
101-200	1037	15.6
201-300	539	8.1
301-500	542	8.2
501-1000	255	3.8
1001-1500	31	.5
Total	6642	99.9

Source: McLaughlin Monthly Printouts

Comparison of the total units consumed (as indicated on the monthly progress reports) and independent calculations of approximate unit consumption* reveal some discrepancies, but there are no consistent patterns of either over-calculating or under-calculating. More than nineteen of every twenty calculations (95%) appear to be correct; the majority of the remaining cases are undercharges of approximately 25 or fewer units per bondee.

*A computer-based procedure was developed to calculate unit consumption according to the provisions of various contracts and modifications. The ensuing analysis is the basis for this discussion.

2.3 Characteristics of Losses

Since the purpose of fidelity bonding is to protect the employing organization against losses caused by employees, an examination of the incidence of such losses (or claims of such losses) under the bonding program contributes to a balanced review of the program's operational characteristics. This section discusses in some detail the overall loss experience of the program in the context of general fidelity industry practices and loss experience; and, as further guidance, there is a review of some specific characteristics of the claims submitted.

2.3.1 Loss Experience

Department of Labor personnel frequently refer to the "2% default rate" associated with the Federal Bonding Program. This rate means that one in fifty individuals participating in the program has been involved in claims which were paid. Since the focus of the bonding program has been to determine the feasibility of providing service to individuals who are not commercially bondable, it is reasonable that Department of Labor staff have been most attentive to the relatively low proportion of bondees causing losses.

But in order to provide maximum understanding of the Federal Bonding Program experience to representatives of the fidelity bonding industry, it is useful to present program statistics in terms which are more consistent with the language and criteria used by fidelity bonding underwriters. These underwriters are more specifically concerned with the dollars lost through defaults than with the numbers of individuals responsible for the losses. From their point of view, profitability is a major evaluative criterion; and it is natural that the industry be more concerned with this criterion than the Federal Government. For this reason, an effort has been made to examine the loss experience of the Federal Bonding Program in a way which relates it to situations in the commercial bonding industry.

Developing operational measures of the "profitability" of the Federal Bonding Program, or of the corresponding name schedule lines of commercial underwriters, is difficult for a number of reasons. In the case of the Federal Bonding Program, much of the day to day administration of the program is handled by Employment Service personnel who have other responsibilities; since no Employment Service Local Office personnel were hired specifically to carry out bonding program activities, the program has in fact incurred "hidden costs" not covered by the premiums.

In the case of commercial underwriters, standard accounting procedures in the industry do not permit disaggregation of income and expenditures according to the various kinds of bonding; the profitability of name schedule bonding is therefore difficult to separate from the profitability of the much greater volume of blanket bonding. For these reasons, there is no way to draw realistic comparisons of the profitability of the Federal Bonding Program and its commercial name schedule bonding counterpart.

However, it is possible to compare the Federal Bonding Program and commercial underwriters in terms of a "loss ratio", which is defined as the ratio of total amount paid in claims for a given time period to the amount of money earned in premiums. Fidelity underwriters commonly use the concept of loss ratios as an indicator of profitability, with a higher loss ratio indicating a lower profitability. (Actual profitability, of course, also includes other expenses of doing business beyond those associated with the payment of claims.)

Based upon statistics provided by the United States Department of Labor, in the period between the inception of the Federal Bonding Program in June 1966, and the end of February 1975, \$948,110 in premiums was received, and \$135,409 was paid out in claims. Based on these numbers, the loss ratio for the entire

program is 14.28 percent.* This figure is only three-quarters of the comparable ratio for individual and schedule fidelity lines for all U.S. insurers for the years 1966-1971, which is 19.50 percent.** (Surety Association studies have estimated that operating expenses associated with the production and underwriting of individual or schedule bonds amount to 56 percent of the direct premiums earned, and when premium taxes, loss adjustment expenses and brokerage expenses were added to the operating expenses and paid losses, the figures would "probably show a total loss and expense volume approaching the premium volume".)

It should be recognized, however, that the relatively low loss ratio experienced by the Department of Labor bonding program can, in large part, be explained by the relatively high premium structure involved. Although the premiums paid to the Department of Labor contractor/underwriters have varied considerably during the more than eight years of the program's operation, the mean premium rate was 93.31 cents per bonding unit, or \$22.39 per \$1,000 of coverage per year.***

*No attempt has been made to calculate the changes in the Federal Bonding Program loss ratio over time, but when the statistics from January 1, 1970, through February 28, 1975, are considered, the comparable figures are \$114,648 in payments for default, and \$668,110 in premiums, for a loss ratio of 17.16%, somewhat higher than the ratio for the entire history of the program.

**The individual and schedule lines have been chosen for comparison because they represent the commercial alternatives which are closest to the kind of bonding provided by the Federal Bonding Program, i.e., covered for specified individuals for specified amounts of money.

***The manner in which the Department of Labor determined the premium structure for the Federal Bonding Program is described in detail in a separate report, The History of the Federal Bonding Program. Briefly, the Department issued a procurement document which allowed bidders to set whatever fee they felt was appropriate, given the fact that there was no actuarial experience with bondees who were excluded from commercial policies. A single bid of \$5.00 per bonding unit (or \$120 per thousand) was submitted and considered unacceptable by the Department. After negotiations, the bidder agreed to (footnote continued)

In order to better understand the impact of this premium rate upon the Department of Labor bonding loss ratio, Exhibit 2-9 shows how the ratio would have been raised if the average premiums charged to the Department had been lower. As can be seen in that exhibit, had the premium rate been \$16.40 per \$1,000, or lower, the loss ratio for the Department of Labor program would have been higher than the Surety Association reported rate.

Although the premium rates for employment in certain jobs are higher than \$16.00, it should be recognized that this figure is probably considerably above the rate normally charged for most jobs. Thus, for example, the commercial rate for automobile service station employees -- the largest category of Federal Bonding Program bondees -- is \$10.00 per thousand dollars of coverage.*

Thus, in the absence of any data which suggests that claims are handled differently by the Federal Bonding Program underwriters and other underwriters, it appears that the ex-offenders and other "unbondables" in the Department of Labor sponsored program represent a somewhat greater risk than the average commercial individual and schedule bondee.** It is impossible to specify the

a price of \$1.75 per unit (or \$42 per thousand). After several years of operation of the program, the Departmental contractor agreed to lower the price to 70 cents per unit (\$16.80 per thousand). When the Department put the program up for bids a second time, the sole bidder offered 85 cents per unit (\$20.40 per thousand). This bid was accepted and this rate is currently in effect.

*Surety Association Rate Manual, "Fidelity -- Individual and Schedule Bonds -- Classified Lines", Revision of January 1, 1965, p. F-65.

**Since loss ratios are based upon premiums and losses, the only possible explanation of differences in loss ratios is differences in premiums charged and/or differences in the manner in which claims are processed and losses incurred. In some cases, one might posit a relationship between the premium charged and the loss experienced. Thus, for example, one can imagine that if premiums were higher, employers would be more selective (in hiring) and thus loss experience might go down. In the case of the Federal Bonding Program, however, there is no evidence that suggests that either employers or bondees were even aware of the rates being paid. Thus no possible impact of the rate on loss experience is possible.

EXHIBIT 2-9

LOSS RATIO CALCULATIONS

Federal Bonding Program

June, 1966-February, 1975

Actual Premium	\$22.39/year	Actual Loss Ratio	14.28%
*Hypothetical Premiums	20.00/year	*Hypothetical Loss Ratios	15.99%
	16.40/year	(based on those premiums)	19.50%
	15.00/year		21.32%
	10.00/year**		31.97%
Comparable Figure***			
All Companies,			
Individual and			
Schedule Lines			
Average 1966-1971			
			19.50%
Comparable Figure***			
All Companies,			
Total Fidelity,			
Average 1966-1971			
			53.03%

*Hypothetical figures represent recalculations of loss ratios, given the same loss experience and decreased income based on lower premium rates.

**This is the standard rate for employees at gas stations, the largest class of Department of Labor bondees.

***Source: The Surety Association of America. Summaries of Countrywide Loss Experience, Fidelity Classification (1960-71). Data for years prior to 1966 has been excluded because it contains associated claim expenses as well as direct losses incurred.

precise degree to which the ex-offenders represent a higher risk without information concerning average rates paid by individual and schedule bondees; this information is not available from the Surety Association or any other source.

Over 86 percent of the total premiums income collected for fidelity bonding coverage in the years 1960-1971 was for blanket bonds. For this reason, care must be taken in interpreting a comparison of the Federal Bonding Program loss ratio with that for the entire industry. But it can be noted that the 14.28 percent loss ratio experienced by the bonding program is just over one-quarter of the 53.03 percent ratio experienced by the entire commercial bonding industry in the years 1966-71. As in the case of comparisons with individual and schedule bonds, much of the discrepancy can be explained by differing premium rates. Surety Association officials have suggested additional explanations for the disparities in loss ratios as well. These include the understanding that most embezzlers have been employed for a far longer period of time than the suggested eighteen month maximum period of coverage for Federal Bonding Program participants at the time they commit their crimes, and the belief that Federal Bonding Program participants are aware that they are "under the gun" and would be less inclined to begin devious practices immediately.

In considering the loss ratios noted above, it should be stressed again that these statistics are not perfect indicators of the relative profitability of the Department of Labor and commercial fidelity bonding activities. As noted above, these figures do not include additional costs associated with the conduct of the fidelity bonding business. Although no such comparisons of the costs of administering the two types of bonding programs appear feasible at this point, it is reasonable to suspect that the costs associated with the administration of the Federal Bonding Program (with its mandatory monthly reporting requirements) may be higher than those associated with standard

commercial individual and schedule bonding. Thus the costs per bondee associated with commercial blanket bonding would, it can be expected, be considerably lower than per bondee costs in either the Federal Bonding Program or the commercial name schedule equivalents.

The essential conclusion to be drawn from this brief examination of the Federal Bonding Program loss experience is that bonding unbondables at standard name schedule rates is probably less profitable than commercial bonding at identical rates. For this reason, insurance companies cannot be expected to voluntarily adopt a program of bonding "unbondables" if their sole concern is maximizing profits.

At the same time, however, it should be recognized that the overwhelming majority of ex-offender bondees have not defaulted and that the bonding of ex-offenders does provide a major benefit both to the bondees and to society, which has a major stake in offender rehabilitation. Because of this, it would seem incumbent upon the Department to insure that some means of providing this coverage remains available. The data presented in this sub-section do not necessarily rule out increased insurance industry participation in bonding of at least some ex-offenders either at higher premium rates than are standard or for "public interest" purposes which are not aimed at maximizing profits. If neither of these options proves possible, however, the only remaining option would appear to be continuation of the currently implemented system.*

*As is noted in the History of the Federal Bonding Program, industry sources have provided a number of explanations for their unwillingness to participate in the program other than financial risk. Perhaps the most important of these is the unwillingness to participate in a program which involves relinquishing the opportunity to screen individual applicants and eliminate "unacceptable risks" from coverage.

2.3.2 Further Analysis of Claims

The examination of the overall loss experience of the bonding program during the 1966-1974 period provides information which is essential to understanding the record of program operations in the context of commercial fidelity underwriting. In addition, the specific characteristics of the claims submitted which resulted in payments (as well as of those denied and those still pending) provide information on the source of the claims, the size of individual claims, and their distribution among geographic locations, industry categories, and time periods. This information can be utilized to define tendencies among the variables which, when verified, could lead to certain program modifications and, potentially, diminish the overall loss ratio (both in terms of bondees and in terms of dollars paid in claims). The following descriptions review some of these characteristics both to present the background for the loss experience and to point out those tendencies which can be investigated further.

A general overview of the claims submitted can be highlighted as follows:

- The total number of claims submitted between July 1966 and February 1975 was 295. The total number of claims paid during that period was 128, or less than half the claims. Even though 79 (or 26.8%) of the claims were still unresolved, 58 of them were submitted over three years ago. Finally, 87 claims were in fact denied.*
- The number of individuals represented among the paid claims is approximately 128 (through February 1975). The number of bondees who had participated in the bonding program through July 1974 was 6401. This represents default rate of 1.9%.
- The total amount paid in claims was \$135,409 or 14.3% of the total premiums paid from 1966 - February 1975.
- The number of months which elapsed from formal initiation of a claim to its resolution ranged from less than one month to more than two years. One hundred and eighty-six claims (63%) were settled in one to twelve months, with half of those closed between one and six months.

* Some of these claims were rejected because they were not adequately documented by employers. Others were judged unsupportable.

- Claims clustered in five states; they occurred more frequently in certain years; a few industrial categories represented a decidedly dominant portion of the claims submitted.
- The average size of payments per claim has risen, although erratically, through the history of the program.
- The relationship between incidence of default and length of period bonded seems to indicate a tendency toward more frequent defaults among the shorter bonding periods.
- Overall, with the possible exception of service stations, it does not appear that there are any glaring abuses of the program which might have been reflected in claims submitted.

Distribution of Claims by State and Industrial Category

Claims were submitted from 34 states;* it could be expected that the number of claims would be directly related to the number of bondings in these states. An examination of this ratio certainly suggests a close but not total correspondence. For instance, California had by far the largest number of bondings and claims, while Illinois (ranking second in bondings) had only 18 claims. Exhibit 2-10 summarizes the relationship between the five states with the highest number of claims and their corresponding rank in bondings.

EXHIBIT 2-10

COMPARISON OF CLAIMS TO BONDINGS BY STATE		
STATES WITH HIGHEST NUMBER OF CLAIMS**	NUMBER OF BONDINGS AND RANK AMONG STATES***	RATIO OF BONDINGS TO CLAIMS BY STATE
California 77	1446 (1st)	3.9%
Michigan 24	336 (5th)	7.1%
Texas 19	304 (7th)	6.2%
Illinois 18	549 (2nd)	3.3%
Ohio 17	286 (8th)	5.9%
Source: McLaughlin Claims Data		

*Of the eighteen states not submitting claims, three had no bonding program participants.

**Through February, 1975

***Through July, 1974

Just as bondings and claims seem to cluster in a small number of states, the types of companies and organizations submitting claims also cluster into a small number of industrial categories. At the two digit level of the Standard Industrial Classification, seven categories of industries represents 71.7% of the claims for which SIC information was available.* Auto dealers and service stations are by far the most frequent claimants (See Exhibit 2-11). Those industrial categories not listed were wide ranging in type and represented between one and six claims apiece.

EXHIBIT 2-11

DISTRIBUTION OF CLAIMS BY INDUSTRY CATEGORY*			
<u>SIC#</u>	<u>Title</u>	<u>Number of Claims</u>	<u>Percent of Total Claims</u>
55	Auto dealers and service stations	96	37.2%
65	Real estate	22	8.5%
70	Hotels & lodging	18	6.9%
50	Wholesale trade	16	5.4%
72	Personal services	12	4.6%
59	Miscellaneous retail trade	11	4.3%
73	Miscellaneous business services	10	3.9%
	All other SICs	73	28.3%
		<u>258</u>	<u>100.0%</u>
Source: McLaughlin Claims Data			

However, claim submissions represent only potential problems; it is claim approval and payment which can more specifically indicate a vulnerable industry category, particularly if such claims are frequent, relatively large, and originate in geographically disparate areas. Exhibit 2-12 presents again the industrial categories with the most claims, this time in descending order of amounts paid in claims.

*Of the 295 claims, SIC information was available for 258.

EXHIBIT 2-12

AMOUNT PAID IN CLAIMS BY INDUSTRY CATEGORY				
<u>SIC#</u>		<u>Number of Claims</u>	<u>Amount Paid</u>	<u>Percent of Total Amount*</u>
55	Auto dealers & service stations	96	\$47,686	41.7
70	Hotels and lodging	18	17,514	15.4
20	Mfg. food and kindred products	6	10,894	9.6
65	Real estate	22	10,196	8.9
72	Personal Services	12	4,243	3.7
	All other SICs	104	23,504	20.7
		<u>258</u>	<u>\$114,037</u>	<u>100.0</u>

Source: McLaughlin Claims Data

Over seventy-five percent of the amount paid out in claims went to companies in four major industry categories. Again, service stations dominated the list. Manufacturing of food and kindred products, a grouping which had only six claims submitted, represented slightly under ten percent of the total amount paid in claims. However, the amount was primarily the result of a single claim settled for \$9,945. The other categories on the list of frequent claimants (wholesale and retail trade, and business services) comprised only \$3,130, or 2.7% of the total. Even though the total amount of the claims paid in each category is relatively small, with the exception of service stations, it is significant that claims and actual losses covered tend to concentrate in a few industries. If there are characteristics of the jobs available in these industries, such as frequent, unsupervised exposure to cash or products, which might render them undesirable for bondee employment, then perhaps there should be less emphasis on those industries when placing

*Total amount in this instance refers to amounts paid for those claims with an SIC identification \$114,037

bondees.*

Since service stations appeared so frequently as claimants, states in which these claimants were located have been included below. Again, it would be expected that the states with the highest number of bondings would be among them, especially if bonded jobs at service stations were frequent in those states. Particularly noticeable is Michigan with 21 out of its 24 claims coming from service stations. Exhibit 2-13 is arranged according to the number of service station claims.

EXHIBIT 2-13

CONCENTRATION OF CLAIMS FROM SERVICE STATIONS BY STATE			
STATE	TOTAL NUMBER OF CLAIMS	NUMBER OF SERVICE STATION CLAIMS	PERCENT OF TOTAL STATE CLAIMS
MICHIGAN	24	21	87.5%
CALIFORNIA	77	15	19%
INDIANA	10	6	60%
TEXAS	19	6	31.5%
OHIO	17	5	29%
OREGON	11	5	45%
MASSACHUSETTS	6	5	83%
KANSAS	5	4	80%

Source: McLaughlin Claims Data

*A discussion of the overall distribution of bonded jobs by industrial category appears in Section 3.1. The available SIC's confirm that service stations are frequent employers of bondees; the other industries are not so clearly dominant. Unfortunately, sufficient SIC information on all bonded jobs is not available in order to provide information on other industries frequently employing bondees. However, in Illinois, for which all SIC are available, service stations ranked 3rd with 56 (14.0%) of the Illinois bondees. Interestingly, no Illinois claimants were from this group.

Distribution of Claims by Year and Average Amount

The relative frequency of claims filed has increased to some extent from 1966 through 1974. In 1966, no claims were filed; between 1967 and 1970 this percentage rose from 2.2 to 5.0, dropped somewhat, and rose again to 5.0 in 1974. Exhibit 2-14, below, shows the number of claims submitted each year:

EXHIBIT 2-14

NUMBER OF CLAIMS SUBMITTED BY YEAR			
<u>Year</u>	<u>Total Bondings</u>	<u># Claims</u>	<u>Claims as % of Total Bondees</u>
1966	74	0	0
1967	368	8	2.2
1968	712	16	2.2
1969	728	29	4.0
1970	647	32	5.0
1971	981	40	4.1
1972	1345	48	3.6
1973	1198	57	4.8
1974*	1032	51	5.0
(1975**)			
		281	
Source: McLaughlin Claims Data			

Concurrently, the average size of payments made per claim has risen significantly, although this rise has been erratic and may therefore be attributable to some factor other than the evolution of the program. In 1967, the average claim paid was \$286. This rose drastically to a peak of \$1861 per claim in 1973. In 1974, the average was \$840. Exhibit 2-15 shows the changes in average payments from 1966 through 1974.

*The total number of bondees for 1974 is approximated.

**Claims submitted in 1975 are not included in this exhibit because no information is available on the bondees in 1975.

EXHIBIT 2-15

AVERAGE PAYMENTS BY YEAR			
Year	# Claims Paid	Total Amounts Paid	Avg. \$ Per Claim
1966	0	0	0
1967	7	2002	286
1968	9	3804	423
1969	11	6656	605
1970	8	8299	1037
1971	21	32676	1556
1972	26	15551	598
1973	28	52133	1861
1974	17	14288	840

Source: McLaughlin Claims Data

Relationship Between Default and Length of Bonding

Claims data were examined to determine whether there exists a relationship between default and the length of time bonded. For all bondees in the program through 1974, there were a total of 268 claims submitted.* Almost one third of these were submitted against individuals bonded for less than four months. The number of claims submitted declines steadily as the length of time-bonded increases. However, this is not necessarily conclusive since the pool of individuals in each time period drops. Thus, it is important also to determine the claims as a percentage of the total number of bondees within each time period.

EXHIBIT 2-16

CLAIMS SUBMITTED BY LENGTH OF BONDING PERIOD			
Time	Number of Bonds	Percent of Total Claims	Claims As A Percent of the Bonds Active in Time Period
Less than 4 mos.	86	32.1	3.7
4-6 months	70	26.1	5.5
7-12 months	63	23.5	5.0
13-24 months	33	12.3	2.7
over 24 months	16	6.0	2.8
	268	100.0	

Source: McLaughlin Claims Data, McLaughlin Monthly Printouts

* For bondees for whom length of time bonded is known.

As is shown in Exhibit 2-16 above, although almost one-third of claims were submitted against the group bonded less than 4 months, these claims were submitted for only 3.7% of this group. After 12 months, it appears that claims are less likely to be submitted for those remaining in the program. Claims were submitted against about 2.7% of bondees in the program for thirteen months or more, while the shorter time periods show percentages of as high as 5.5%.

The group of individuals bonded for 4-6 months appears to have several significant characteristics regarding claims. The portion of bondees in that group against whom claims were submitted was higher than that in any other group (5.5%). The group also had the second highest number of claims submitted and the highest percentage of claims paid. About thirty percent of all claims paid were for this group; over half (52.9%) of claims submitted for this group were paid. Accordingly, this group accounted for the smallest percentage (28.6%) of claim denials. Denials for other groups were as high as 37.5%.

The previous discussion has presented the background of the default rate and the loss ratio from a variety of perspectives. The subject is by no means exhausted. However, some of the trends described above may contribute to a conclusion that a more selective placement process may result in greater job satisfaction, fewer claims, and longer job retention.

2.4 Characteristics of Bondees: The Illinois Case Study

Due to major gaps in the availability of MT-110 forms which contain demographic data for bondees, it is not possible to present (or extrapolate) this data for all participants in the bonding program. It is fortunate, however, that such forms are available for (virtually) all bondees who were placed in the State of Illinois from the inception of the program through 1974.

As a result, analysis of the demographic characteristics of the bondees is limited to a discussion of the available statistics for the Illinois case study. The representativeness of the Illinois participants in terms of various parameters of program utilization is discussed in Appendix F to this report. Data concerning the reason for bonding, age, sex, race and educational attainment of Illinois bondees are presented in Section 2.4.1. below. Section 2.4.2 examines the bondees upon whom claims have been filed, and addresses the question of whether or not these bondees are typical of all other bondees in the State.

2.4.1 Bondee Profile

Reason for Bonding

As was intended by many Department of Labor program designers, the participants in the bonding program have been primarily ex-offenders. Approximately 87 percent, or six out of every seven Illinois bondees reported that they were unable to receive commercial bonding because of a police record. Roughly three percent of the bondees utilized the program because of their credit records, and another ten percent reported various other reasons.

Demographic Characteristics of Bondees

In general, the bondees in Illinois have tended to be non-white, male, under the age* of 34, and with at least some high school education. As is

*Whenever "age" is referred to, it relates to the age of the individual at the time of entry into the Federal Bonding Program.

EXHIBIT 2-17

CHARACTERISTICS OF ILLINOIS BONDEES*

(a) Reason for Denial of Bond

	<u>#</u>	<u>% of Total</u>
Police Record	450	86.7
Credit	17	3.3
Other	<u>52</u>	<u>10.0</u>
Total	519	100.0

(b) Race

	<u>#</u>	<u>% of Total</u>
Non-White	285	58
White	<u>208</u>	<u>42</u>
Total	493	100.0

(c) Sex

	<u>#</u>	<u>% of Total</u>
Male	506	96.7
Female	<u>17</u>	<u>3.3</u>
Total	523	100.0

(d) Education (Yrs. of School)

	<u>#</u>	<u>% of Total</u>
1-8 years	55	11.0
9-11	186	37.2
12	158	31.6
13-15	82	16.4
16+	<u>18</u>	<u>3.8</u>
Total	499	100.0

(e) Age

	<u>#</u>	<u>% of Total</u>
15-24 years	168	32.4
25-34	204	39.4
35-44	83	16.0
45-54	46	9.0
55-64	15	3.0
65+	<u>2</u>	<u>.004</u>
Total	518	99.8

* Source: MT-110 Forms Supplied by Illinois Employment Service

shown in Exhibit 2-17, the racial composition of the bondees is roughly three non-whites for every two white program participants. Virtually all of the bondees were men; only 17 of the 523 bondees for whom such information was available were women.

Moreover, the Illinois bondees were primarily young men. Nearly one-third of them were under 24 years of age at the time of their bonding; more than 70% were under the age of 34.

The bonding program participants have varied greatly in their educational attainment, but it is noteworthy that nearly nine out of every ten bondees have had at least some high school education. As is shown in Exhibit 2-17, 20% of the bondees have had at least some college education. The range of educational attainment of the bondees is illustrated by Exhibit 2-18.

Comparison with the Illinois Ex-Offender Population

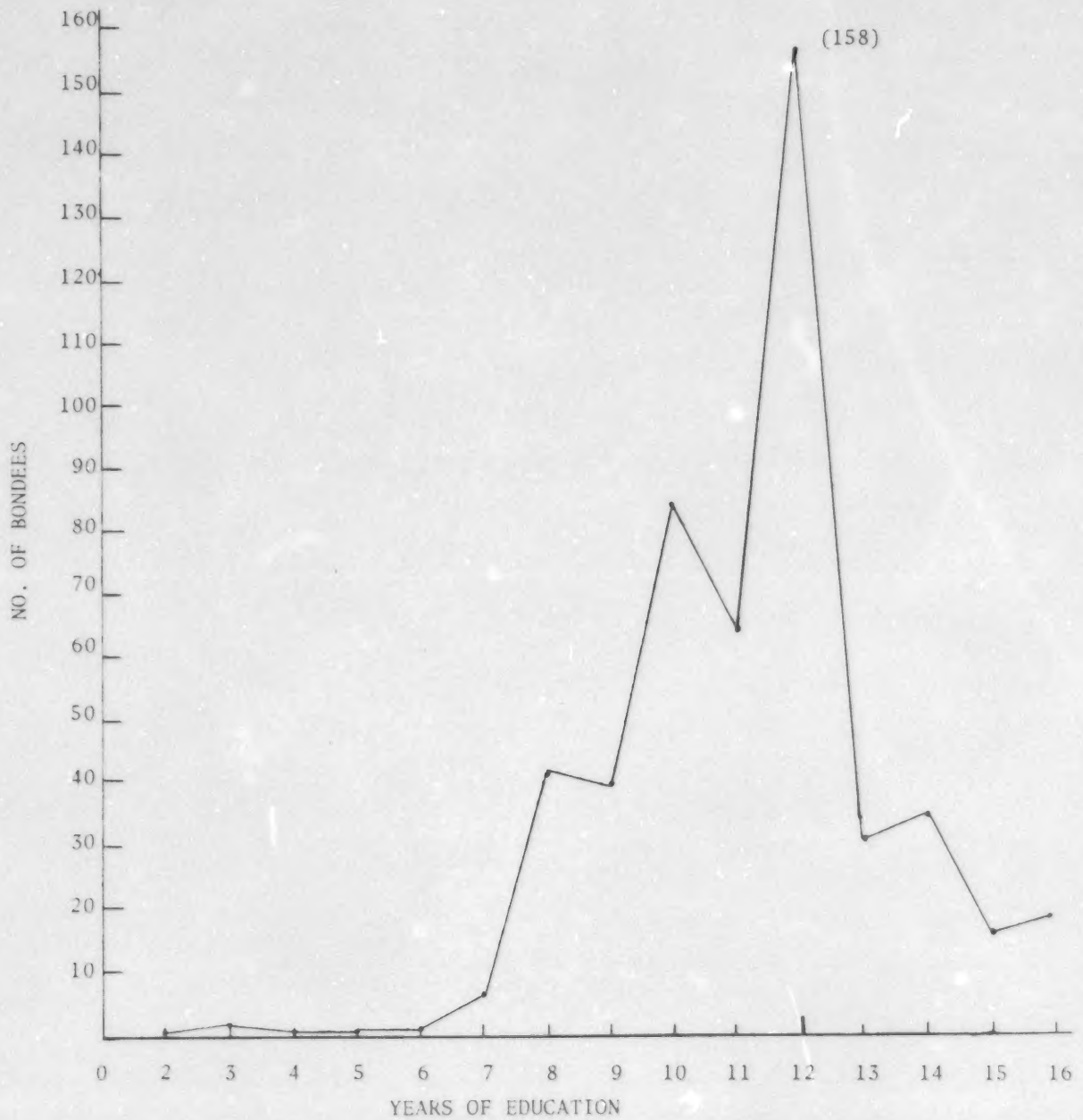
If one adopts the number of individuals incarcerated in adult correctional institutions in the state as a surrogate for the overall Illinois ex-offender population, it appears that the bondees are remarkably typical of this broader population group of program eligibles. As is shown in Exhibit 2-19, there is virtually no difference between the proportion of males and females in the bondee and incarcerated populations; there is also virtually no difference in the racial breakdown of these two groups.*

On the other hand, the participants in the Federal Bonding Program appear to be both older than the typical inmate and better educated. Exhibit 2-20 illustrates these points. Thus for example, over 56% of all inmates in Illinois were under the age of 25 at the time of their last entry into prison;

*Both bondees and Illinois ex-offenders differ significantly from the Illinois population at large and the labor force on these variables. The former two groups are disproportionately male and black compared to the latter two.

EXHIBIT 2-18

EDUCATIONAL ATTAINMENT OF ILLINOIS BONDEES



Source: MT-110 Forms Supplied by Illinois Employment Service

EXHIBIT 2-19

COMPARISON OF ILLINOIS BONDEES AND INMATES*

	<u>Sex</u>		<u>Total Adult Pop. in Ill. Prisons</u>	
	<u>Bondees</u>			
	#	%	#	%
Male	506	96.7	6493	97.9
Female	17	3.3	141	2.1
Total	523**	100.0	6634	100.0

	<u>Race</u>		<u>Total Adult Pop. in Ill. Prisons</u>	
	<u>Bondees</u>			
	#	%	#	%
Non-white	285	58.0	3853	58.1
White	208	42.0	2777	41.9
Total	493**	100.0	6630	100.0

*Source: Illinois Department of Corrections: All adult institutions as of 12/31/74, and MT-110 forms supplied by Illinois Employment service.

**Totals on Illinois bondes reflect the number for whom the information was available.

EXHIBIT 2-20

COMPARISON OF ILLINOIS BONDEES AND INMATES *

<u>Age</u>				
	<u>Bondees</u>		<u>Total Adult Pop. in Ill. Prisons</u>	
	#	%	#	%
15-24	168	32.4	3738	56.7
25-34	204	39.4	1792	27.2
35-44	83	16.0	755	11.4
45-54	46	9.0	{ 311	4.7
55-64	15	3.0		
65+	<u>2</u>	<u>.004</u>		
Total	518		6596	

<u>Education</u>				
	<u>Bondees</u>		<u>Total Adult Pop. in Ill. Prisons</u>	
	#	%	#	%
1-8	55	11.0	869	17.21
9-12	344	68.9	3627	71.85
12+	<u>100</u>	<u>20.0</u>	<u>552</u>	<u>10.93</u>
Total	499		5048	

* Source: Illinois Department of Corrections and MT-110 forms supplied by Illinois Employment Service.

this figure compares with only roughly 32% of the bondees who were under 25 at the time of their bonding. Similarly, while 28% of the program participants were 35 or more at the time of their bonding, only 16% of all incarcerated prisoners had reached the age of 35.

Despite the similarities in sex and race, the Illinois bonding program participants are significantly better educated than the Illinois inmate population. In particular, the proportion of bondees with at least some college education is almost double that of the inmate population (20% versus 11%).

2.4.2 Profile of Bondees Upon Whom Claims Were Filed

Claims were filed on 19 of the 533 Illinois bondees. In order to determine whether or not these bondees were typical of all program participants, comparisons were made of several demographic characteristics of these two groups.*

As is indicated in Exhibit 2-21, the bondees upon whom claims were filed tended to be older and somewhat better educated than their counterparts, but were otherwise typical with respect to race, sex and reasons for denial of bonds.

The area in which the two groups differed most significantly was age at entry into the program. Almost one third (31.5%) of the Illinois bondees were 15-24 years old, while none of those for whom claims were submitted were in this age category. While 38.3% of the Illinois bondees were 25-34, over half (58.8%) of the claims group was in this range. It thus appears that those in the claims group were more concentrated in age category than were all Illinois bondees.

*Demographic information is available for 17 of the 19 bondees upon whom claims were submitted.

The claims group appeared to be a relatively highly educated group as well. Over half (52.9%) of the claims group had completed high school, compared with only 29.6% of the Illinois bondees who had no claims submitted. In all, 70.5% of the claims group, and only 48.4% of the Illinois bondees completed 12 or more years of school.

Although the percentage of females in the claims group was higher than the entire group, it is difficult to assign meaning to this, since only one individual in the claims group was female.

Race and reason for denial of bond appear to be fairly comparable between the two groups of bondees. Over half in both groups were non-white; and over three-fourths in both groups were denied bonding because of police records.

EXHIBIT 2-21

CHARACTERISTICS OF ALL ILLINOIS BONDEES COMPARED TO
 CHARACTERISTICS OF ILLINOIS BONDEES ON WHOM CLAIMS
 WERE FILED *

<u>REASON FOR DENIAL OF BOND</u>				
	<u>All Illinois Bondees</u>		<u>Bondees/Claims Submitted</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Police Record	450	84.4	13	76.5
Credit	17	3.2	1	5.9
Other	52	9.8	0	0
No Answer	14	2.6	3	17.6
Total	533	100.0	17	100.0

<u>RACE</u>				
	<u>All Illinois Bondees</u>		<u>Bondees/Claims Submitted</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Non-white	285	53.5	9	52.9
White	208	39.0	5	29.4
No Answer	40	7.5	3	17.6
Total	533	100.0	17	99.9

<u>SEX</u>				
	<u>All Illinois Bondees</u>		<u>Bondees/Claims Submitted</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Male	506	95.0	15	88.2
Female	17	3.2	1	5.9
No Answer	10	1.9	1	5.9
Total	533	100.1	17	100.0

* Source: MT-110 forms supplied by Illinois Employment Service.

EXHIBIT 2-21 (Cont.)

EDUCATION (YEARS OF SCHOOL COMPLETED)

	<u>All Illinois Bondees</u>		<u>Bondees/Claims Submitted</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1-8 years	55	10.3	1	5.9
9-11 years	186	34.9	2	11.8
12 years	158	29.6	9	52.9
13-15 years	82	15.4	3	17.6
16+ years	18	3.4	0	0
No Answer	34	6.4	2	11.8
Total	533	100.0	17	100.0

AGE AT ENTRY INTO PROGRAM

	<u>All Illinois Bondees</u>		<u>Bondees/Claims Submitted</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
15-24 years	168	31.5	0	0
25-34 years	204	38.3	10	58.8
35-44 years	83	15.6	3	17.6
45-54 years	46	8.6	1	5.9
55-64 years	15	2.8	1	5.9
65+ years	2	.4	0	0
No Answer	15	2.8	2	11.7
Total	533	100.0	17	99.9

3.0 PROGRAM RESULTS

The previous sections have provided an overview of the bonding program and a summary of its operational characteristics including statistics concerning the characteristics of program participants and the resulting loss experience. In this section, an effort is made to review the available data in order to make the best possible judgements as to the results of the program. Although it is not possible to prove that participation in the bonding program has caused any changes in bondees, employers, or the insurance industry, it is possible to present data which reflect the opinions of participants and to supplement this information with objective data concerning activities of these three groups prior to, during, and after association with the program.

Therefore, this section contains the following parts:

- A summary of the industrial categories in which bondees have been placed ;
- An indication of the effects of the program upon participating employers ;
- An indication of the impact of the program upon the fidelity bonding industry ;
- An indication of the effects of the program upon bondee employability.

These descriptions, then, provide a composite picture of the program's results and suggest some possibilities for further examination of employment barriers and upward job mobility.

3.1 Industry Categories of Bonded Jobs

The first part of the analysis of program results describes the industry categories of bonded jobs. The objective of disaggregating jobs held by bondees into their industrial classification (at the four-digit level of the Standard Industrial Classification (SIC) Code) is four-fold:

- (1) To identify the industrial categories in which bondees were employed for the purpose of discovering whether there is a tendency to cluster in certain industries.
- (2) To describe employing industries in terms of characteristics which seem to make them focal points for bondee employment.
- (3) To identify industrial categories which do not employ bondees but which are major sources of employment for the general labor force.
- (4) To provide a backdrop for the analysis of claims submission in order to identify whether any industry category present in the Federal Bonding Program is disproportionately represented in claims submitted and/or paid.

These objectives are addressed through examination of the distribution of jobs held by Illinois bondees, and a summary of industry classifications for 2432, post-1971, bondees as described below. The jobs for both groups present the same basic picture: bondees appear to have been placed primarily in wholesale and retail trades, manufacturing, and in services; bondees appear to have been placed in a far larger number of automobile service stations than can be explained by the proportion of such establishments in the economy.

3.1.1 SIC Data: Illinois Case Study

SIC information is available for 531 Illinois bondees, representing all but 21 of the individuals bonded in that State between the inception of the program and 1974. Based upon four-digit SIC codes, these bondees were engaged in 147 different types of businesses including manufacturing, wholesale and retail of various products and provision of a wide range of services. Bondees worked for federal and local government agencies as well as for private industry and non-profit organizations.

In order to establish a reference point, the 1970 state labor force distribution by industry type (at the more aggregated two digit level) is compared to the industry distribution of bondees. Exhibit 3-1 on the following page shows the twelve SIC's (at the two-digit level) in which the highest number of Illinois bondees were employed. Over 90% (472) of the Illinois bondees were employed in these twelve groups. Manufacturing was, by far, the largest SIC category, with about one-quarter of the Illinois bondees. This included, among other things, the manufacture of clothing, furniture, rubber and metal goods, and sporting and photographic equipment. However, it should be noted that one third of the bondees employed in manufacturing were employed by two companies. A clothing company and a sporting goods manufacturer employed 19 and 23 bondees, respectively. In retail trade, which ranks second, 37 bondees (about half of those in that category) were employed by a single company. The fourth highest category, public administration, employing 9% of the Illinois bondees, also bears some comment. All 47 individuals employed in this category served as "property custodians" in the Chicago Policy Department. Bondees employed by "non-profit organizations" are also represented primarily by one employer. The Goodwill Industries employed 37 of the 41 individuals working in this category.

Column (6), Exhibit 3-1, shows the percentage of the total State of Illinois labor force employed in the twelve industries employing 90% of the bondees. In comparison, these twelve industries employ only 61.6% of the Illinois work force. Seven of the top twelve bondee industries are also among the top twelve in the State; however, manufacturing and wholesale trades are the only categories whose ranks in State employment and bondee employment correspond directly.* The ranks of retail trade, public administration, and restaurants

* Exhibit 3-2 illustrates the 12 major industries in the State as a whole in 1970.

EXHIBIT 3-1

INDUSTRY DISTRIBUTION AMONG ILLINOIS BONDEES AND OVERALL STATE EMPLOYMENT

(N=521)

2-Digit SIC Code	12 Largest Industries Employing Bondes*	Number of Bondes	Percent of Total Bondes	1970 Illinois Employment In 12 Industries	Percent of Total Illi- nois Jobs	Rank
19-39	Manufacturing	130	25.0	1,340,180	30.3	1
52, 56 57, 59	Retail Trade	73	14.0	245,630	5.6	3
55	Cars (Ret.) & Service Stations	56	10.7	79,024	1.8	10
93	Public Administration	47	9.0	194,269	4.4	5
86	Non-Profit Organizations**	41	7.9	63,300	1.4	22
50	Wholesale Trade	25	4.8	185,536	4.2	6
53	Gen. Mdse. Retail - Dept. Stores	25	4.8	143,005	3.2	9
73	Business Services	23	4.4	85,634	1.9	15
72	Personal Services	16	3.0	127,396	2.9	11
42	Trucking - Moving & Storage	16	3.0	75,957	1.7	19
58	Restaurants	10	1.9	130,438	2.9	10
75	Repair Services	10	1.9	58,515	1.3	24
TOTAL		472	90.4	4,419,915	61.6	

Source: MT-110 forms supplied by Illinois Employ. Serv.; U.S. Census of Population

*See page 4 for discussion

**Between the years 1966 and 1974.

EXHIBIT 3-2

12 LARGEST INDUSTRIES: STATE OF ILLINOIS

<u>Major Industries In Order of Size</u>	<u>Percent of Persons Employed</u>
Manufacturing	30.3
Schools & Colleges	6.9
Misc. Retail Trade	5.6
Construction	5.1
Public Administration	4.4
Wholesale Trade	4.2
Insurance	3.5
Hospitals	3.5
General Merchandise	3.2
Restaurants	2.9
Personal Services	2.9
Agriculture-Forestry-Fishing	2.7
Total	75.2

Source: U. S. Census of Population

differ only one place when comparing bondee rank to all State labor force rank.

Bondee jobs thus seem to be concentrated in fewer types of industry than are jobs throughout Illinois. Some of the more outstanding contrasts between the bondee labor force and the general labor force are as follows:

- Automobile retail, gas, and service, in which 10.7% of bondees were employed, employs only 1.8% of the workers in the State.
- The second largest category for the State, schools and colleges, which employs 6.9% of the general working population, employed only five bondees in Illinois, about 0.9%.
- The fourth largest Illinois category, construction, employs 5.1% of the general work force. Only 0.6% of Illinois bondees, (3) worked in the construction industry.

Automobile dealerships and gas and service stations employ a variety of unskilled and semi-skilled workers. The fact that many service station jobs such as "attendant," as opposed to "mechanic," pay very low wages and usually have a high turnover rate can partially explain the disproportionate numbers of bondees in this category. Frequently jobs which ex-offenders are able to obtain upon release from prison are of this nature.

The discrepancies between those industries which employ the largest numbers of bondees and those which employ the largest numbers of Illinois residents suggest a number of avenues for future bonding program development. In particular, those industries which play a large role in the Illinois economy but which are not represented among bondees may hold a significant potential for broadening bonding placement activity. In some instances, it can be expected that State and local licensing statutes and union membership agreements may be partially responsible for the low numbers of bondees.* In these instances, remedial action will lie beyond the capacity of individual Employment Service placement specialists. But on the other hand, there may

*For a discussion of the role of licensing restrictions for ex-offenders, see Law, Licenses and the Offender's Rights to Work by the National Clearinghouse on Offender Employment Restrictions.

be no specific barrier in other industrial categories--such as state colleges and universities--and these categories may prove a fruitful market for job development activities for future bondees.

3.1.2 Additional SIC Data

Standard Industrial Classification data has been provided for 2432 bondings, representing about 84% of the bonding activity since July, 1972, and about 37% of the total number of individual bondings which took place since the inception of the program.* The extent to which the industrial categories in which these 2432 bonding placements fall are representative of the universe of bondees is difficult to assess. This is particularly true because of the dramatic changes in the economy which have occurred since 1972. However, data on these placements are included as a supplement to the Illinois case study, and comparison with Illinois appears in Section 3.1.3.

Exhibit 3-3 demonstrates that the 2432 bondees were placed in a wide variety of industries, but were concentrated among the wholesale and retail trades and services. The wholesale and retail trades accounted for more than a quarter of these bondees; more than a quarter of these placements were in service occupations.

*The contract between the Department of Labor and the Summit Insurance Company, which took effect in July, 1972, required that information concerning SIC and DOT codes for all bondee placements be included in all subsequent monthly progress reports from the contractor.

EXHIBIT 3-3

INDUSTRIAL CLASSIFICATION OF BONDEE PLACEMENTS

(2 digit-SIC data; N=2432)*

<u>Standard Industrial Classification</u>	<u>Number of Bondees</u>	<u>Percentage</u>
Wholesale and Retail Trade	1154	47.4
Business & Personal Services	693	28.5
Manufacturing	221	9.0
Finance, Insurance, and Real Estate	169	6.9
Transportation; Communication; Electric, Gas and Sanitary Services	99	4.1
Construction	48	2.0
Government	26	1.1
Agriculture, Forestry and Fisheries	20	.8
Mining	2	.1
Nonclassifiable	0	-
TOTAL SICS	2432	99.9

* No SICS are available for 4223 of the 6655 bondings.

Source: McLaughlin Monthly Printouts

Exhibit 3-4 shows the thirteen occupational groupings into which bondees were most frequently placed based upon 2-digit SIC codes. Automobile dealers, including gasoline and service stations, employed more bondees than did any other single grouping of business. Over one-fifth (22.2%) of the bondees for whom SIC's are available held jobs in this category. This number is more than twice as high as the next most frequently represented occupational grouping, "miscellaneous business services." These top ten categories account for almost three-quarters of the 2432 bondees. The remaining 671 bondees were employed in sixty-three other categories.

EXHIBIT 3-4

MOST FREQUENT INDUSTRIAL CATEGORIES

(N=2432) *

<u>SIC</u>	<u>Title</u>	<u>Number</u>	<u>Percentage</u>
55	Automobile dealers & gasoline service stations	541	22.2
73	Miscellaneous business services	265	11.0
50	Wholesale trade	206	8.5
70	Hotels, rooming houses, camps	100	4.1
58	Eating and drinking places	97	4.0
86	Non profit organizations	92	3.8
54	Food stores	91	3.7
65	Real estate	85	3.5
75	Auto repair, service and garage	67	2.8
53	Retail trade, general merchandise	59	2.4
42	Motor freight transportation & marketing	57	2.3
52	Building material, hardware, farm equipment	51	2.1
80	Medical and other health services	50	2.0
	All others	671	27.6
	TOTAL	2432	100.0

* No SICs are available for 4223 of the 6655 bondings.

Source: McLaughlin Monthly Printouts.

3.1.3 Comparison of Illinois and Other Bondee Employment Profile

The SIC data from the two sources present similar but not identical pictures. Although the four largest employers of bondees in Illinois were manufacturing,* retail trades of various types, service stations/auto dealers and public administration, only manufacturing and services stations/auto dealers were among the four largest for the 2432 post-1972 bondees, as indicated in Exhibit 3-5. There were no bondees listed in public administration jobs or in personal services, with the exception of those in Illinois.

Certainly this exhibit verifies the one trend which has appeared regardless of what aspect of the bonding program (e.g., claims) is being examined: auto service stations dominate every sample population regardless of the size. Further, since the SIC's for non-Illinois bondees are available only after 1972, and column (2) covers only 70% of all those bondees,** and the percentage in that category is fully twice as large as the Illinois percentage which covers the whole program, it might appear that the trend toward bondee employment in service stations is accelerating. Indeed, the number of claims from that category (60) which have been filed between 1972 and February 1975 is almost twice the number filed between 1966 and 1971.

3.1.4 Job Profile: Bondee Followup Data

Occupational data were collected from those individuals who provided usable responses to the bondee followup mailing and cross-referenced against available MT-110 occupational data. The following results are thus based upon the data concerning 53 respondents to the bondee followup activities.

*The manufacturing and miscellaneous retail categories include a range of 2-digit SIC codes. Manufacturing = 19-59, retail = 52, 54, 56, 57, and 59.

**The Illinois breakdown includes 90% of Illinois bondees.

EXHIBIT 3- 5

ILLINOIS BONDEE EMPLOYMENT PROFILE
COMPARISON WITH POST-1972 BONDEE
EMPLOYMENT PROFILE IN SIMILAR CATEGORIES

SIC*	Title	ILLINOIS (1966-1974)		POST - 1972	
		Number of Bondees	Percent of Illinois	Number of Bondees	Percent of Total
19-39	Manufacturing	130	25.0	221	9.0
52, 54, 56, 57, 59	Retail (Misc.)	73	14.0	142	5.8
55	Service Stations/ Auto Dealers	56	10.7	541	22.2
93	Public Administration	47	9.0		
86	Non-Profit Organization	41	7.9	92	3.8
50	Wholesale Trade	25	4.8	206	8.5
53	Retail General Merchandise	25	4.8	59	2.4
73	Business Services	23	4.4	265	11.0
72	Personal Services	16	3.0		
42	Trucking, Moving and Storage	16	3.0	57	2.3
58	Eating and Drinking Places	10	1.9	97	4.0
75	Repairs	10	1.9	67	2.0
	Other	49	9.4	685	28.2
	TOTAL	521	99.8	2432	99.2

Source: MT-110 forms supplied by Illinois Employment Service,
McLaughlin Monthly Printouts.

*These SIC categories have been aggregated to correspond to the Illinois breakdown in Exhibit 3-1 rather than the overall breakdown in Exhibit 3-3 and 3-4.

The 53 bondees were placed in a wide range of jobs through the program. Although several of them were unskilled "blue collar" jobs such as janitor, factory order packer and warehouseman, many were technical or "professional" jobs involving supervisory responsibility. These included electrical technician, accounts payable supervisor, counseling director, and restaurant manager.

The 53 bondees held approximately 35 different types of jobs. The single job held by the highest number of bondees was salesperson. These ten respondents were involved in the sale of automobiles, cleaning supplies, clothing, insurance, and other goods and services. Office workers also accounted for a high proportion of bondees. Eight bondees had clerical jobs.

3.2 Results of Employer Participation

Employer questionnaires were sent to a 5% nationwide sample of employers who were listed in program records as having hired participants in the bonding program.* However, of the 63 employers who returned completed instruments, only 35 (55.5%) said that they hired individual bondees through the Federal Bonding Program as indicated in Exhibit 3-6. Six employers (9.5%) responded that they had not hired program bondees, while over one third did not answer this question, or did not know. Thus, most of the data concerning employer experience with the program is based on 35 responses.

EXHIBIT 3-6 **

EMPLOYERS WHO HIRED EMPLOYEES COVERED BY FEDERAL BONDING PROGRAM (n=63)		
	<u>Number</u>	<u>Per Cent</u>
HIRED	35	55.5
DID NOT HIRE	6	9.5
DON'T KNOW	9	14.3
NO ANSWER	13	20.6
TOTAL	63	99.9

3.2.1 Discussion of General Responses

Utilization of Fidelity Bonding

Although 63 employers returned the instrument, only 49 (77.8%) indicated that they do, in fact, use fidelity bonding, or have used it at one time. (See Exhibit 3-7, below.) The remaining 22.2% indicated that they do not use fidelity bonding, did not respond to the question, or did not know.

* Instruments were mailed to approximately 300 employees.

** Source: Contract Research Corporation Employer Follow-Up Survey.

Although it was hoped that the bonding program might reduce employer reluctance to hire ex-offenders and other "hard-to-bond" individuals, the program also provided an opportunity for employers to require bonding for positions not previously insured. In other words, an employer might require bonding for an individual through the program simply because it was available at no cost. However, this did not appear to be happening in most cases.

EXHIBIT 3-7 *

EMPLOYERS WHO USE FIDELITY BONDING		
(N=63)		
	Number	Per Cent
USE NOW	46	73.0
PREVIOUSLY USED	3	4.8
DO NOT USE	8	12.7
DON'T KNOW	6	9.5
	63	100.0

Figures presented in Exhibit 3-8 , below, are based on the employers who use, or have used, fidelity bonding. Over 80% (49) indicated that they require bonding for "all" or "most" of their employees. A total of 7 employers, or 14.3% indicated that they require bonding for "some" or "1" or "2" individuals.

** Source: Contract Research Corporation Employer Follow-Up Survey.

EXHIBIT 3-8 ***

PORTION OF EMPLOYEES COVERED BY FIDELITY BONDING (N=49) *		
	<u>Number</u>	<u>Per Cent</u>
ALL	36	73.5
MOST	4	8.2
SOME	4	8.2
1 OR 2	3	6.1
DON'T KNOW OR NO ANS.	2	4.0
TOTAL	49	100.0

The 49 employers' use of fidelity bonding is further described by data presented in Exhibit 3-9, below. ** Of the 50 respondents, over four-fifths (82%) reported carrying a blanket bond for all their employees for whom they require bonding. Four employers (8%) carried a blanket bond for most employees and a name bond for one or more employees. No employers used special fidelity bonds for each employee or position (name or position schedules).

*49 employers use or have used fidelity bonding. See Exhibit 3-7 above.

**Data in Exhibit 3-9 is based on 50 employers; one employer did not answer the question regarding use of bonding but did respond to that regarding type of bonding.

*** Source: Contract Research Corporation Employer Follow-Up Survey.

EXHIBIT 3-9 *

TYPES OF FIDELITY BONDING USED BY EMPLOYERS (N=50)		
	Number	Per Cent
BLANKET FOR ALL THOSE BONDED	41	82
BLANKET FOR MOST, NAME FOR ONE OR MORE	4	8
NAME OR POSITION SCHEDULE ONLY	0	0
DON'T KNOW OR NO ANSWER	5	10
	50	100

3.2.2 Relations with Insurors

Standard fidelity agreements exclude individuals known by employers to have "committed dishonest or fraudulent acts." Employers were asked whether they had inquired of their insurors whether a waiver of this exclusion could be granted in order to hire someone and have him/her covered under their existing bonding policies. Exhibits 3-10, 3-11, and 3-12 indicate the numbers of employees who requested such a waiver(s), the number of requests which they made and the insurors' responses, respectively.

Exhibit 3-10 shows that fewer than half (46%) of the 50 employers claimed to have requested waiver(s) of exclusionary clauses. Slightly over one-third did not request waivers. The high number of employers who did make requests would seem to indicate a willingness on their part to hire ex-offenders or other "hard-to-bonds."

This willingness is further illustrated by the data presented in Exhibit 3-11.

* Source: Contract Research Corporation Employer Follow-Up Survey.

Of the 23 employers who made such requests, 56.5% (13) made only one request. However, 17.5%, or a little less than one-fifth, made 3-5 requests; and an equal number made more than five requests.

EXHIBIT 3-10*

EMPLOYERS WHO REQUEST WAIVER OF EXCLUSIONARY CLAUSE (N=50) **		
	<u>Number</u>	<u>Per Cent</u>
REQUESTED	23	46
DID NOT REQUEST	17	34
DON'T KNOW OR NO ANSWER	10	20
TOTAL	50	100

EXHIBIT 3-11

NUMBER OF WAIVER REQUESTS MADE BY EMPLOYERS (N=23) ***		
<u>Number of Requests</u>	<u>Number of Employers</u>	<u>Per Cent</u>
1	13	56.5
3-5	4	17.4
MORE THAN 5	4	17.4
DON'T KNOW	2	8.7
TOTAL	23	100.0

* Source: Contract Research Corporation Employer Follow-Up Survey.

**49 employers who indicated that they do use fidelity bonding, plus 1 who gave no answer to the use of bonding but did respond to this question.

***Employers who requested waivers.

As described in the History of the Federal Bonding Program (Final Report, Vol. I), some insurers had stated that it was not they, but the employers who were creating an employment barrier by claiming an inability to hire because of a prohibition by the insurance underwriter. Insurers held that employers did not ask for waivers of traditional exclusionary clauses because they preferred to maintain their policies of not hiring ex-offenders. However, as indicated in Exhibit 3-12, insurers denied the requests of employers in 16 out of 23 (69.6%) cases. Although no firm conclusions can be drawn at this point regarding employer willingness to hire ex-offenders, it seems evident that at least some insurers were less willing to modify bonding policies than some employers were to hire.

EXHIBIT 3-12 **

EMPLOYER REQUESTS FOR WAIVERS: RESPONSES OF INSURORS		
	(N=23)*	
	Number	Per Cent
AGREED	7	30.4
REFUSED	16	69.6
TOTAL	23	100.0

The questionnaire item regarding the number of employers' requests to include ex-offenders in bonding policies was a closed-end item utilizing ranges rather than precise numbers. Therefore, it is impossible to state precisely how many requests are represented. However, these figures represent a minimum of 49 requests. Of these 49, a minimum of 26 were refused. Thus,

*Employers who requested waivers.

** Source: Contract Research Corporation Employer Follow-Up Survey.

it appears that insurers refused to waive exclusionary clauses in about half the cases.

The persistence of employers in attempting to persuade insurers to bond ex-offenders can be measured by responses to the question: "When a waiver was not agreed to, did you request an individual Name Schedule Bond for the potential employee(s)?" Of the 16 employers (as indicated in Exhibit 3-12) who were refused waivers by their insurers, none responded "yes" to this question.

3.2.3 Profile of Employers Participating in Bonding Program

Information presented in this section provides a brief descriptive summary of employer characteristics such as type of business, geographic location, and number of employees. Figures introduced in the remainder of this section are based on the responses of 35 of the 63 employers who returned questionnaires.

EXHIBIT 3-13 **

EMPLOYER LOCATION		
(N=35)		
	<u>Number</u>	<u>Per Cent</u>
INNER CITY	28	80.0
SUBURBAN	6	17.1
SMALL TOWN *	0	0
RURAL	0	0
NO ANSWER	1	2.9
TOTAL	35	100.0

*The instrument defined "small town" as towns having populations of 10,000 or less.

** Source: Contract Research Corporation Employer Follow-Up Survey.

As indicated in Exhibit 3-13 above, 80% of the businesses which responded were located in inner cities. Three inner city employers reported business in a suburb, town, and/or rural area as well. Suburban areas were the next most frequently represented employer locations with 17.1% of employers indicating suburban areas as their business location.

The respondents were engaged in a wide variety of businesses, including retail and wholesale trade, manufacturing and various types of services. The range of businesses operated by responding employers is shown in Exhibit 3-14 below.

EXHIBIT 3-14 *

EMPLOYERS' TYPES OF BUSINESSES (SIC Category)		
(N=35)		
	<u>Number</u>	<u>Per Cent</u>
RETAIL TRADE (autos, gas, service)	8	22.6
WHOLESALE TRADE	5	14.3
MEDICAL SERVICE	3	8.6
MANUFACTURING	4	11.4
RETAIL TRADE (other)	3	8.6
TRANSPORTATION	2	5.7
RETAIL TRADE (food)	1	2.9
REPAIR SHOP (auto)	1	2.9
RETAIL TRADE (gen'l merchandise)	2	5.7
OTHER	6	17.1
TOTAL	35	99.8

* Source: Contract Research Corporation Employer Follow-Up Survey.

More employers were engaged in retail trade of autos, including gas and service, than in any other single business type. More than one-fifth, 22.6% of the respondents were in this category. The next most highly represented business types were wholesale (14.3%), manufacturing (11.4%), other retail trade and medical services (8.6% each). Various types of business, generally represented by one employer each, were included in the category labelled "other."

The profile of bonding program employers also includes the size (number of employees) of the firms which hired the participating bondees. Examination of Exhibit 3-15, below, reveals that over one-half (54.3%) of the businesses represented by respondents employed over 50 individuals. This group, combined with those who employ 21-50 individuals, constituted over three-quarters (77.2%) of the respondents. Less than one-tenth (8.6%) had 10 or fewer employees.

EXHIBIT 3-15 *

EMPLOYERS' SIZES OF FIRMS (N=35)		
# Employers	Number	Per Cent
5 OR LESS	2	5.7
6-10	1	2.9
11-20	5	14.3
21-50	8	22.9
OVER 50	19	54.3
NO ANSWER	0	0
TOTAL	35	100.0

* Source: Contract Research Corporation Employer Follow-Up Survey.

3.2.4 Employer Satisfaction with Bondee Performance

The 35 responding employers who indicated that they hired bondees represented a minimum of 115 bondees, or about 2% of the 6,600 individuals bonded through the Federal Bonding Program. A large portion (42.9%) hired one bondee through the program; about one-fourth hired between 4 and 12. A breakdown of employers by number of bondees hired is presented in Exhibit 3-16 below.

EXHIBIT 3-16 *

NUMBERS OF FEDERAL BONDING PROGRAM BONDEES HIRED BY EMPLOYERS (N=35)		
Number of Bondees	Number of Employers	Per Cent of Employers
1	15	42.9
2	4	11.4
3	3	8.6
4-12	9	25.7
13-20	2	5.7
OVER 20	2	5.7
TOTAL	35	100.0

These employers collectively, were in contact with only a small portion of the bondees hired as a result of the program. However, their views and attitudes constitute the only reported experiences between bondees on-the-job and their employers. These experiences provide the basis upon which actions toward future employment of program participants will be taken by employers.

* Source: Contract Research Corporation Employer Follow-Up Survey.

One general indication of employer impressions of the bonding program and of possible willingness to hire other ex-offenders is their expressed satisfaction with the performance of bondees on-the-job. A large majority responded "yes" when asked whether such performance had been satisfactory. Over three-fourths (77.1%) of the respondents were in this category. One-fifth (N=7) of the employers responded "no" to this question. The breakdown is shown in Exhibit 3-17.

EXHIBIT 3-17*

EMPLOYERS' SATISFACTION WITH BONDEE PERFORMANCE		
(N=35)		
	Number	Per Cent
SATISFIED	27	77.1
NOT SATISFIED	7	20.0
NO ANSWER	1	2.9
TOTAL	35	100.0

Another indicator is the frequency with which employers inform other agencies of their willingness to hire ex-offenders. In the instance where the Employment Service represents "another agency", half of those who answered had taken such action. Therefore, while most employers seemed satisfied with bondee performance (see Exhibit 3-17), not all of them took any additional action.

* Source: Contract Research Corporation Employer Follow-Up Survey.

EXHIBIT 3-18*

NOTIFICATION TO EMPLOYMENT SERVICE OF EMPLOYER WILLINGNESS TO HIRE EX-OFFENDERS (N=35)		
	<u>Number</u>	<u>Per Cent</u>
NOTIFIED	16	45.7
DID NOT NOTIFY	16	45.7
NO ANSWER	3	8.6
TOTAL	35	100.0

3.3 Impact of the Bonding Program on Insurance Industry

A major focus of the Program Analysis has been to assess and report results of the bonding program for its participants (bondees and employers). One reason that results have not been identified as "impacts" is the absence of an opportunity to measure how these participants would have fared without the bonding program. The one exception to that rule is the fidelity bonding industry.

The Department of Labor initially undertook to provide bonding coverage because of the inability of certain otherwise employable individuals to secure such coverage from commercial sources. As has been discussed in The History

* Source: Contract Research Corporation Employer Follow-Up Survey.

of the Federal Bonding Program and in Section 2.3 of this report, many of the designers of the bonding program had two expectations of the program that involved the insurance industry:

- (1) In the short term, it was hoped that interest in the program would generate at least one acceptable bid and thus provide the necessary processing of bonds and support for resolving any claims initiated by employers of those covered.
- (2) In the long run, it was hoped that sufficient positive actuarial experience would occur so that commercial bonding companies could be persuaded to use greater flexibility in bonding individuals previously considered "unbondable".

The first expectation was fulfilled to the extent that three, relatively small companies have (sequentially) entered into contracts with the Department of Labor to provide the necessary services.* The second expectation has not been achieved in any fashion that can be attributed to the existence of the bonding program.

The following discussion represents judgments based on interviews with representatives from the industry and--where applicable--the results of the employer survey which described employers' relationships to their bonding companies.

It is important to keep in mind that insurance companies consider the ability to screen the fidelity bonding applicant an essential prerequisite for the existence of their business. One screening criterion has traditionally been the commission of crimes, especially those related to property (theft, embezzlement, forgery, fraud, etc.). However, insurers generally maintain that given "sufficient" evidence of "repentance and rehabilitation" such individuals can be, and are, approved for fidelity coverage.

*This issue is further explored in the History of the Federal Bonding Program. That volume covers three insurance underwriters contracts. Since its completion, a contract has been executed with a fourth underwriter.

The Federal Bonding Program prohibits such screening and is therefore, at least conceptually, an anathema to the fidelity bonding industry.

After reviewing the bondee and employer responses to the mail followup surveys, and considering the information given by insurers, it appears safe to conclude that there has been no significant change in the unwillingness of bonding companies to modify their practices in general with respect to the exercise of discrimination among individuals applying for coverage. But on the other hand, there is a consensus among insurance industry leaders in our interviews that in recent years, there has been a tendency towards increased flexibility in making exceptions to exclusionary clauses, and that the proportion of individuals who cannot get fidelity bonding is smaller than it has been in the past.*

It should be noted, however, that the insurance industry contentions about bonding ex-offenders on a case-by-case basis have been challenged in a number of cases by reports of Employment Service placement specialists and employers. (See, for example, Exhibit 3-12 above.) In the absence of systematic empirical data on this topic, it is difficult to ascertain the accuracy of these charges and counter-charges.

* This is still subject to statutory restrictions in certain job types, such as those in state and federally chartered banks and savings institutions.

It thus becomes appropriate to consider the criteria utilized by insurers to screen out potential employees and to gain additional understanding of insurance industry practices on a more specific "case-by-case" basis. For example, one might consider satisfactory performance by a bondee while covered under the program as providing some evidence of the individual's reliability. If there were bondees who exhibited such reliability in the view of their employers, it could be expected that a growing number of program "graduates" would be found covered under the regular bonds used by their employers. There is no clear evidence that this has occurred. Some bondee respondents and employers indicated that this had happened, but very few. In addition, comments by several insurers indicated that the ranks of program graduates transferring to their accounts were not swelling noticeably, nor was there any expectation by these insurers that this would be the case in the future. The following factors appear to explain and strengthen that conclusion:

- (1) The limited information exchange between the Department of Labor and the fidelity bonding industry has resulted in relatively little awareness of the current status and or effectiveness of the program.
- (2) When confronted with the default rate and loss experience figures reported in Section 2.3, industry representatives offered a variety of reasons why those figures were not conclusive. Further, there is a steadfast belief among many insurers that most serious embezzlement and related crimes do not occur until well after the 18-month coverage limit suggested by the bonding program guidelines.
- (3) There were no insurance representatives who recalled even reviewing more than five applications submitted on behalf of program graduates.
- (4) Finally, there is no evidence of any innovative experiments in fidelity bonding of "unbondables" since the two such projects carried out by the Aetna Life and Casualty Company which took place in the mid-1960s.*

*The Aetna activities in this regard are discussed in the History of the Federal Bonding Program, (Final Report; Volume I), pp. 49-50.

In conclusion, the evolution of the fidelity bonding industry has been slow over the last 20 years; there is no reason to expect that it will relinquish its basic approach to bonding in the next ten.

That circumstance does not, however, dictate that the program should not be continued. As the final section in this report indicates, the program has indeed had an effect on some of its participants and could be continued on that merit alone--whether the insurance industry changes at all or not. At the same time, if the quality of the bonded employee's experience can be improved through changes in program design, then those bondes who wish to continue to work in jobs requiring bonding can be better prepared to satisfy the case-by-case screening constraints still imposed by commercial firms.

3.4 Results of Participation on Bondee Employability

The following section assesses the effect of the bonding program on various indicators of bondee employability. Information presented in this section was obtained from questionnaires mailed to approximately 1600 bondes throughout the United States.* Although it is not likely that the respondents comprise a representative sample of all bondes, the very definite trends in their experience are worthy of note.

"Employability" was not measured in terms of potential, such as skill acquisition or willingness to work; rather, the questionnaire aimed to determine the program's effect on bondes' salaries and job retention. In addition, it drew on bondes' perceptions of their own employability and their experience in the program. In general, those bondes who responded had retained their jobs for over a year and were earning higher salaries than they had before entering the program. In addition, most bondes commented favorably upon the program's effect on them.

*Instruments were mailed to approximately 427 bondes in Illinois and about 1375 in other states, representing all bondes for whom home addresses were available, legible, and complete. Bondes from states other than Illinois were all bonded prior to 1971; Illinois bondes cover the entire history of the program from 1966-1974.

It was originally hoped that information gathered from Illinois bondes would enable the preparation of a representative case study. However, the response rate from the Illinois bondee mailings was lower than had been expected and was in fact lower than the rate encountered in the pre-1971 mailing for all other states. Only 19 Illinois bondes and 75 non-Illinois (including pretest) bondes returned completed instruments, representing return rates of 4.37% and 6.6% respectively. Of these 94, only 10 Illinois and 53 non-Illinois bondes indicated that they had been bonded through the program. The responses of these two groups were combined; figures in this sub-section are therefore based upon 63 participant responses.

3.4.1 Salary as a Measure of Employability

The work experiences of bonding program participants were examined to identify significant increases or decreases in salary among the individuals' (1) last job before entering the program, (2) bonding program job, and (3) current job held by the program participant. (Presently unemployed program participants were requested to indicate salary information for their "most recent" job. In some instances, the current or most recent job may be identical to the job held while the individual was participating in the Federal Bonding Program).

This analysis does not presuppose that salary level is the only, or even the primary, indicator of job quality; but it is the most easily measurable. Therefore, this section contains a discussion of data collected from 63 respondents to the bondee followup mailing concerning their salary histories.* Job stability in terms of length of stay may also be a useful index of job quality and/or job satisfaction, and is discussed in Section 3.4.2 below.

It is important to consider several factors in examining salary figures. The pre-bonded salaries are (on the average) slightly over seven years old. Many are more than ten years old; the bonded job salaries are as much as

*Of the 63 respondents who indicated that they were, in fact, bonded under the program, all three salaries are available for only 29, slightly less than half. Two salaries are available for 18, about 28%, and one salary is available for 13, 20.6%. There are no salaries available for the remaining three bondees. Thus, some comparison is possible for 47 (those with two or three salaries available), about three-fourths of the respondents.

All hourly, monthly and yearly salaries given by respondents were converted to weekly figures as follows: 1 week = 38 hours; 1 month = 4.3 weeks; 1 year = 52 weeks.

Cases in which compensation was based primarily on commission were not counted as "available" salary figures. This was the case for eleven individuals. Part-time or seasonal salaries, such as a \$3,600 a year job with the U.S. Census Bureau were also not counted. (One individual reported a pre-bonding salary of 35¢ per day for work performed within a correctional institution. This was not included in "available salaries.")

The salaries of bondees who listed their current or most recent jobs as "same" as bonded jobs were assigned two identical salaries, unless they specified promotions or raises.

For 30 respondents (all of those with three salaries and one with two salaries available), pre-bond and current salaries are available, which allows for a before and after comparison. For the remaining 18, either pre-bond and bond, or bond and current salaries are available.

seven years old. Thus, absolute increases from pre-bond to bond to current job are not necessarily totally attributable to the bonding program. Therefore, these increases should be examined in the light of such factors as changes in the minimum wage and cost of living in the past 7 to 10 years.

The Federal minimum hourly wage was \$1.60 between 1960 and 1970. The 1975 minimum hourly wage is \$2.00, 25% more than that of five to fifteen years ago. Thus, an increase of more than 25% from pre-bonded salary to current salary may be considered an increase in job quality rather than merely a maintenance of wage level. The overall cost-of-living index has risen 59.3% since 1967. However, many businesses or individuals have not been able to keep pace with this rise; especially during the last two or three years. Exhibit 3-19 below shows the changes from pre-bond to current or most recent salaries for the 30 respondents for whom these figures are available.

EXHIBIT 3-19*

SALARY CHANGE FROM PRE-BOND TO CURRENT JOBS		
(N=30)		
	Number	Percent
Decrease	1	3.3
No change	2	6.7
Increase = 1-25%	6	20.0
Increase = 26-59%	8	26.7
Increase = 60-99%	6	20.0
Increase = 100-150%	4	13.3
Increase Over 150%	3	10.0
Total	30	100.0

* Source: Contract Research Corporation Bondee Follow-Up Survey.

Of the 30 respondents, 21 (70%) show salary increases of more than 25%. Most of these increases were extremely high; seven bondees, slightly less than one fourth, had doubled or tripled their salaries. There were 13 (43.3%) of the 30 whose salaries rose more than 59%. It should be noted that the salaries of the seven individuals whose salaries did not change or increased less than 25% were considerably more than minimum wage and ranged from \$128 to \$288 per week. In addition, one of the two individuals whose salaries decreased is currently earning \$231 per week, although his incarceration interrupted a job at which he was earning \$400 per week.

Salaries are also compared for those respondents for whom only pre-bond and bond or bond and current salaries are available (Exhibits 3-20 and 3-21, respectively). The primary reason that the salary groups shown in Exhibit 3-21 do not show increases comparable to those in 3-19 is that the time span represented is shorter. In Exhibit 3-20 and 3-21, those figures which are available are fairly well spread among each percentage range.

The salaries of the individuals in Exhibit 3-21 which show no change warrant some comment. All four of these bondees listed their current or most recent job as the same as their bonded job. Three of the four entered the program in 1972 and one entered in 1970. Thus, although it is likely that they have received a raise in salary in the past three to five years, it is likely that they have listed their most recent salary at the bonding program job. It should also be noted that five of the seven individuals shown in Exhibit 3-20 are presently either unemployed or retired.

EXHIBIT 3-20*

SALARY CHANGE, PRE-BOND TO BOND		
(N=7)		
	<u>Number</u>	<u>Percent</u>
Increase 1-25%	3	42.9
Increase 26-59%	2	28.6
Increase 60-74%	1	14.3
Increase 75-100%	1	14.3
Total	7	100.1

EXHIBIT 3-21

SALARY CHANGE, BOND TO CURRENT OR MOST RECENT		
(N=10)		
	<u>Number</u>	<u>Percent</u>
Decrease	1	10.0
No Change	4	40.0
Increase 25%	2	20.0
Increase 26-59%	2	20.0
Increase 60-74%	0	0
Increase 75-100%	1	10.0
	10	100.0

* Source: Contract Research Corporation Bondee Follow-Up Survey.

Although major increases in salaries may provide satisfactory evidence of the Federal Bonding Program's success in helping to provide upward mobility to bondees, it is important to examine absolute as well as relative salary figures to determine, to some extent, the general quality of jobs held by bondees before, during, and after participation in the program. Exhibit 3-23 indicates the salaries of bondees at these three jobs. The total percentage of bondees earning \$200 per week or more rose dramatically from 4.8% at pre-bond to 25.4% at current or most recent jobs. Although no causality can be proven here, the trend clearly shows the largest concentration of individuals move from the lowest salary brackets toward the higher ranges. As mentioned above, this may be due in part to the 25% and 59% increase in the minimum wage and the cost of living, respectively. However, it also seems to indicate that training, experience and/or job stability achieved during participation in the program were factors in establishing this trend.

The number of bondees in the under \$100 per week category sharply declined from 28.6% at pre-bond jobs, to 15.9% at bond jobs, and 9.5% at current or most recent jobs. The portion of individuals earning less than \$150 dropped

EXHIBIT 3-22 **

WEEKLY SALARY AT PRE-BOND, BOND AND CURRENT OR
MOST RECENT JOBS

(N=63)

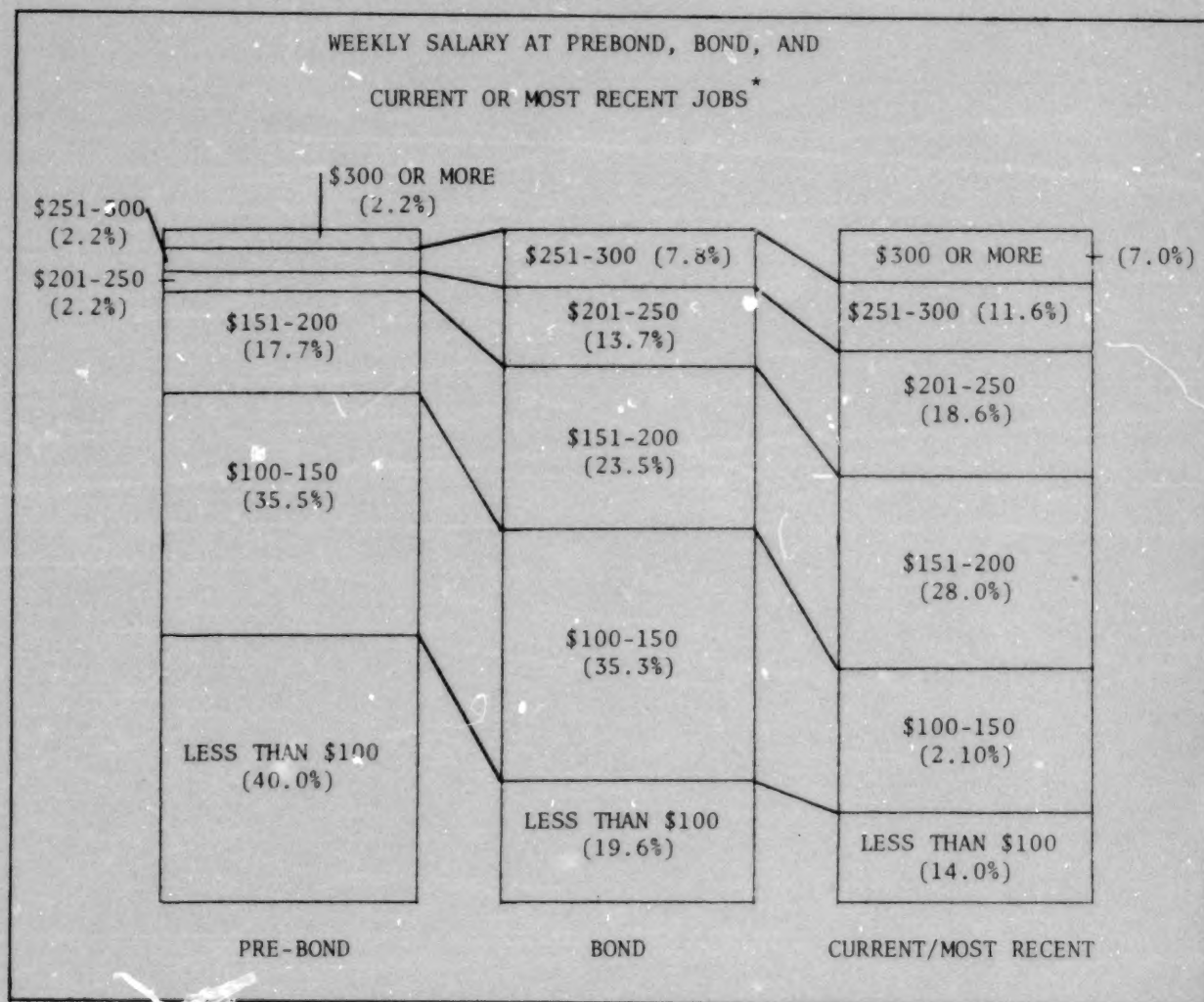
WEEKLY SALARY	PRE-BOND		BOND		CURRENT OR MOST RECENT	
	#	%	#	%	#	%
Under \$100	18	28.6	10	15.9	6	9.5
\$100-150	16	25.4	18	28.6	9	14.3
\$151-200	8	12.7	12	19.0	12	19.0
\$201-250	1	1.6	7	11.1	8	12.7
\$251-300	1	1.6	4	6.3	5	7.9
\$301 or more	1	1.6	0	0	3	4.8
Unemployed* or retired	2	3.2	0	0	7	11.1
No answer or not available	11	17.5	5	7.9	7	11.1
Commission	5	7.9	7	11.1	6	9.5
Total	63	100.1	63	99.9	63	99.9

*The two individuals in this category in the pre-bond column had no work experience at all prior to being bonded under the program.

**Source: Contract Research Corporation Bondee Follow-Up Survey.

from over half (54.7%) at prebond to only 23.8% at current or most recent jobs. At the same time, the number of bondees in the four higher salary ranges increased steadily. The number in the \$151-\$200 range rose from 8 (12.7%) to 12 (19.0%). The relationship between these salaries is further illustrated by Exhibit 3-23 below.

EXHIBIT 3-23 * *



*Figures are based on bondees whose salaries are available, and thus do not include those unemployed, retired, paid on commission, etc.

** Source: Contract Research Corporation Bondee Follow-Up Survey.

3.4.2 Job Retention as a Measure of Employability

Job retention is often considered an indicator of personal stability and job satisfaction. The work histories of ex-offenders are generally characterized by frequent job changes; many of the jobs which ex-offenders can obtain offer little opportunity for advancement. Exhibit 3-24 below shows the length of time bondees stayed at their bonded jobs.* Exhibit 3-25 shows the starting dates of those bondees

EXHIBIT 3-24

BONDEES' LENGTH OF TIME IN BONDING PROGRAM JOB (N=63)		
	#	%
Less than 6 months	1	1.6
6-9 months	13	20.6
10-12 months	6	9.5
13-18 months	1	1.6
19-24 months	5	7.9
25-36 months	5	7.9
37-48 months	3	4.8
More than 48 months	4	6.3
No answer	1	1.6
Still in bonded job	24	38.1
Total	63	99.9

*The job retention for bondees should be distinguished between the length of time these individuals were bonded under the Federal Bonding Program. As was discussed in Section 2.2.2, the typical bondee was covered in the program for only about one half year. The retention rates presented in this section are based upon responses to a mailed instrument. The low return rate makes it impossible to claim the representativeness of the results. Nevertheless, as is described below, most bondee respondents tended to remain in their bonding program jobs after ceasing to participate in the program.

**Source: Contract Research Corporation Bondee Follow-Up Survey.

who are still in their bonding program jobs. Upon superficial examination of Exhibit 3-24, it does not appear that the job tenure of bondees was outstanding. Almost one-third (31.7%) of the bondees held their jobs for twelve months or less. However, more than one-fourth (26.9%) held their jobs for 19 months or more. The highest percentage of bondees, moreover, are still in their bonded jobs and comprise 38.1% of the total.

Exhibit 3-25 serves to elaborate upon the issue of job stability. Almost half (45.8%) of these 24 who are still at their bonding program jobs, were hired between 1968 and 1970 and have therefore been in these jobs from 4 to 7 years. Not only does this bring the number of "over 48 months" in Exhibit 3-24 from 4 to 16 (25.4% of the total), but also these 12 individuals remain in their jobs at present. An additional 11 of the 24 began their jobs either in 1971, 1972 or 1973, and thus have been in these jobs for 1 to 3 years.

EXHIBIT 3- 25 **

STARTING DATES OF THOSE STILL IN
BONDING PROGRAM JCBS

(N=24) *

	Number of bondees	Percent of all respondents	Percent of those respondents still bonded
Jan.-June 1968	1	1.6	4.2
July-Dec. 1968	3	4.8	12.5
Jan.-June 1969	3	4.8	12.5
July-Dec. 1969	2	3.2	8.3
Jan.-June 1970	1	1.6	4.2
July-Dec. 1970	1	1.6	4.2
Jan.-June 1971	1	1.6	4.2
July-Dec. 1971	0	0	0
Jan.-June 1972	3	4.8	12.5
July-Dec. 1972	1	1.6	4.2
Jan.-June 1973	2	3.2	8.3
July-Dec. 1973	4	6.3	16.6
Jan.-June 1974	1	1.6	4.2
July-Dec. 1974	<u>1</u>	<u>1.6</u>	<u>4.2</u>
Total	24	38.3	100.1

*See Exhibit 3-21

**Source: Contract Research Corporation Bondee Follow-Up Survey.

Exhibit 3-26 combines the information contained in Exhibits 3-24 and 3-25. The numbers in parentheses are those who are still in their bonding program jobs. Months are tabulated through June 1975, when the instruments were mailed.

Including those individuals who are still in their program jobs, a full quarter have retained these jobs for more than 4 years. An additional 19% have retained their jobs for 2 to 4 years. In total, almost two-thirds have held their jobs for over one year. Presumably, these figures will continue to rise each month as long as any of these bondees continue to retain the same jobs.

EXHIBIT 3-26*

LENGTH OF STAY IN BONDING PROGRAM JOBS		
(N=63)		
	<u>Number</u>	<u>Percent</u>
Less than 6 months	1	1.6
6-9 months	13	20.6
10-12 months	7 (1)	11.1
13-18 months	4 (3)	6.3
19-24 months	9 (4)	14.3
25-36 months	9 (4)	14.3
37-48 months	3	4.8
More than 48 months	16 (12)	25.4
No answer	<u>1</u>	<u>1.6</u>
Total	63	100.0

In general, bondees for whom this information is available tended to remain at their program jobs after government bonding expired. Almost three-fourths (73.0%) of the bondees remained on their jobs from one month

* Source: Contract Research Corporation Bondee Follow-Up Survey.

to almost five years after they were no longer participating in the program. For these bondees, the average length of time stayed after program bonding expired was 17.9 months.*

However, based upon information contributed by bondees, 10 individuals (15.8% of the total) appear to have been covered by government bonding for an average of 10.2 months after they had left their bonding program jobs. This may be due in part to clerical errors or to employers' failure to notify the Employment Service when bondees terminated their employment. In addition, this data is based on the individual recollections of bondees, and therefore is subject to error.

Job stability may also be measured to an extent by considering the reasons that bondees left their bonded jobs. Exhibit 3-27 indicates the reasons that bondees gave for leaving their

EXHIBIT 3-27 *****

REASONS FOR LEAVING BONDED JOBS		
(N=39)**		
	#	%
Better Job, More Pay	12***	30.8
Better Job, Same/Less Pay	2	5.1
Laid Off	5	12.8
Fired	2	5.1
Medical	7	17.9
Other****	10	25.6
No Answer	1	2.6
Total	39	99.9

*This figure does not include those bondees still on their jobs.

**Those bondees who have left their jobs; 24 remain in jobs.

***including one bondee who left to open his own business

****including geographical changes, bankruptcy, transportation problems, return to school

***** Source: Contract Research Corporation Bondee Follow-Up Survey.

Over one-third (35.9%) of the bondees left for what they considered a better job. For almost all of these, the job also meant higher pay. Medical and "other" reasons together accounted for another 43.5% of the bondees who left. Without further information, only two departures can be attributed to bondee job-related problems, the two bondees who were fired. It is important to note, however, that the fact that so many respondents left for better jobs or for reasons apparently unrelated to their on-the-job performance or job satisfaction may show a bias inherent in the sample, rather than a positive effect of the Federal Bonding Program.

3.4.3 Personal Evaluation of Program Utility

In addition to salary and job retention, it is helpful to know the personal evaluation of the bondees regarding the effect of the program on their employability. The bondees were asked to indicate in what manner--if any--the bonding program had contributed to the attainment of subsequent employment.*

The response to this question was extremely positive. Almost one-third of the bondees indicated that the program had helped them gain both reliability and experience. Combined with the other positive responses, slightly less than two-thirds said that the program had helped them in subsequent employment situations. Exhibit 3-28 below shows the 32 respondents' personal assessments regarding the bonding program.

*Bondees who were still in the program were instructed to skip this question; thus, responses in Exhibit 3-28 below are those from the 31 respondents who had left their bonded jobs plus one who remained in the bonding program job but had been promoted due to experience gained while on the job. A more subjective account of bondees' perspectives on the bonding program appears later in this section.

EXHIBIT 3-28 **

BONDEE ASSESSMENT OF PROGRAM USEFULNESS IN GAINING SUBSEQUENT EMPLOYMENT

(N=32) *

	<u>Number</u>	<u>Percentage</u>
Useful: Gained useful experience	4	13.3
Useful: Demonstrated reliability	7	16.6
Useful: Gained experience & reliability	9	30.0
Useful: Other	1	3.3
Not Useful	7	23.3
No Answer	4	13.3
Total	32	99.8

Bondee Comments

The previous sections have traced the effect of the bonding program upon various factors in bondee employability. Bondees also commented more generally on the program. As could be expected, those individuals who chose to comment made almost exclusively positive statements. Most expressed gratitude about being given a new opportunity; several suggested that the program be expanded and offered to more people; a few expressed concern about regular insurers' continued unwillingness to bond them upon the expiration of government bonding.

Many bondees said that they would not have been able to find and/or keep their jobs or accept a promotion without the Federal Bonding Program. For some, the program provided an opportunity to work in a field for which they had requisite skills and experience but in which they had not been able to

*31 bondees who have left their bonding program jobs and one individual who claimed to have been promoted due to experience gained in the program.

**Source: Contract Research Corporation Bondee Follow-Up Survey.

work without bonding. Several indicated that through the program they had been able to begin new careers, had stayed at their bonded jobs for several years and were then covered by their employers' regular insurance companies. A few mentioned higher salaries as a benefit of program participation. They viewed the program as an opportunity to prove accountability to employers and themselves, and to gain trust and confidence, as well as moral and financial support.

Many respondents offered evaluative comments about the program, stating that it was a "good government program", one that is badly needed by many people, and one that is "not wasted." Many of these same people asserted that the program should be expanded both in terms of its availability to a wider range of people* and the maximum amount of fidelity bonding offered.

Typical bondee comments included the following:

"I feel this program has many good benefits for both the person in need of being bonded and the employer. It should be continued."

"...my confidence was restored, I felt 10 feet tall, and was ready to tackle the world. once again."

"Keep up the good work."

"I could not have kept my job if not for this program."

"Thank God somebody has faith in a felon...I am still covered under this program."

"...It was really a great help to me in regaining a place in society."

"After I was released from parole, and this program no longer covered me, the bonding company that carried the coverage for this office...refused to bond me."

"Believe bonding is very needed to assume total accountability to employer."

* It should be noted that current eligibility criteria are virtually open-ended. Anyone for whom bonding is the sole barrier to a job is eligible.

"I think it's a very good program, and without it, there are a lot of jobs that couldn't be obtained."

"The bonding program made it possible for me to obtain the job. No bond - no job."

"...opens a lot of doors..."

"This program helped me stay out of prison..."

"... program should be kept and made available to more people."

APPENDIX A

Initial Conclusions Drawn From Available Data
For An Analysis of the Federal Bonding Program

(Report Submitted to Department of Labor,
December, 1974.)

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1.0 Overview

As indicated in the research design, there are three kinds of bonding program data which are already available to Contract Research Corporation: computer print-outs containing basic accounting data for the program which are provided on a monthly basis by the McLaughlin Company ("the McLaughlin print-outs"), the Manpower Administration MT-110 forms completed for participants in the Bonding Assistance Demonstration Projects by State Employment Service employees, and summary claims data provided by the McLaughlin Company.

The first analytic task conducted with these data was a review of each to estimate their completeness, their internal consistency, and other factors which would determine their utility in terms of achievement of the research objectives of our study. A summary of the results of this initial review is presented below in Sections 2.0, 3.0, and 4.0. The conclusions drawn from this analysis are presented in Section 5.0.

2.0 McLaughlin Monthly Computer Print-outs

The monthly print-outs of bondings provided by the McLaughlin Company have the potential for being an exceptionally useful data source for this study. They represent the only data source now available for virtually all bondees. (There should be listings on these print-outs for all bondees without exception, but cross referencing of the print-outs with the MT-110 forms has resulted in discovery of 64 cases in which MT-110 forms are available but no McLaughlin print-out listing can be found for an individual. This may represent a possible cancellation of the bond after the MT-110 form was completed but before the employee began work, or it may reflect the difficulties in cross referencing due to the format of the pre-1970 print-outs. But despite this discrepancy, the print-outs provide by far the most inclusive listing of bondees and data relevant to their participation in the program).

Initial analysis of the McLaughlin print-outs indicates, however, that in order to achieve this potential, considerable data preparation must be accomplished. Data problems which require attention before the McLaughlin data can be processed and analyzed include the following:

1. The identification numbers given bondees by the McLaughlin Company are not unique; that is, there are cases where more than one bondee has the same identification number and there are cases in which the same bondee has more than one identification number.
2. The current McLaughlin print-outs are not cumulative over the entire history of the program. In January, 1970, the program records were purged of inactive (terminated) cases in order to shorten the size of each print-out. Thus the post-January, 1970 print-outs do not include bondees terminated prior to that time. In 52 cases, individuals who were not listed as terminated in the December, 1969, print-out did not appear in the January 1970 print-outs.
3. The above described purging of the McLaughlin print-outs resulted in discrepancies in the cumulative bonding "units" utilized by each bondee. (A bonding unit is defined as \$500 of coverage for one month; thus, for example, \$1000 coverage for one year would require

24 units). The "cumulative units used" data on the print-outs thus refers only to units used since January, 1970. For individuals bonded prior to the January 1, 1970 cut-off point who continued to be bonded after that time, the "total units used data" on the print-outs thus need to be corrected for units used prior to the cut-off.

4. The lack of a unique identification number system and lack of social security numbers for most bondees creates a situation in which it is often impossible to distinguish between the case in which one individual was bonded twice and two similarly named individuals were each bonded once.

The first and second problems were addressed by assigning each reported bonding a unique Contract Research Corporation identification number. Numbers were first assigned to all of those who were bonded prior to 1970 (based upon the December 1969 print-out) and then to all of those bonded January 1970 and beyond (based upon the July 1974 print-out). No identification numbers were assigned to the 64 cases in which individuals were listed in December 1969 as still bonded but were not listed on the January 1970 (and subsequent) print-outs at all. It is impossible to determine the cause of this discrepancy as well as the date of termination of bonding for these individuals. They were therefore eliminated from further analysis.

Those individuals who were still bonded during the period in which the McLaughlin files were being purged appeared on both print-outs. Only one identification number was assigned to these individuals.

As to the third problem, the discrepancies in total units used for some of the bondees were addressed by isolating those bondees for whom this would be a problem (that is, those who appeared on both the December 1969 print-out and subsequent print-outs), recording the number of units used through December, 1969, and preparing a computer program to add these units used to the totals available in the post-1970 print-outs.

The final problem involving possible multiple bondings was considerably more complex and was addressed in the following manner: initial review of the computer print-outs through July 31, 1974 revealed a total of 6692 entries in the December 1969 and July 1974 print-outs listing a bondee name, an employer, and dates of employment. Several hundred of these names were similar or identical. In order to determine the total number of different individuals who had participated in the program (that is, "bondees"), it was necessary to review the print-outs to determine the number of individuals who had been bonded more than once. The total number of bondees was then determined by subtracting the multiple bondings from the total.

Initial review of the names of bondees provided on the McLaughlin print-outs revealed that no common format was employed. Sometime a full first name was used, sometimes an initial, and sometimes an apparent nickname. This problem, along with the absence of social security numbers, meant that there was no machine-based technique which could be relied upon to accomplish our task. As a result of this, it was concluded that the problem of multiple bondings could only be addressed by a manual review of the listed names and the application of judgement on a case by case method. This, in turn, required considerable expenditure of staff time which was not included in the study budget. But the importance of determining the actual number of bondees was considered important enough to merit this expenditure of resources.

For all cases in which social security numbers were not present - the vast majority - it was necessary to utilize the remaining available data to come to a conclusion concerning multiple bondings. There were two alternative methods of accomplishing this. The entire list could have been reviewed with Contract Research Corporation staff using their "best judgement" as to whether

or not there were indeed cases of multiple bonding. For example, such a judgement might have included the following, "This last name is so unusual that it is unlikely that two people would have been bonded having the same last name and initial. Therefore we can assume that it is a multiple bonding of the same individual."

The alternative to this approach was the application of decision-rules which reviewers could apply to the data to reach their conclusions. This approach was adopted because it offered the advantage of replicability; using this method, any reviewer would come to the same conclusions concerning the same data.

Review of the total number of bondings was therefore conducted according to the following decision-rules:

- A. In cases of identical listings (same name, same dates of bonding, same employer) it was assumed that there was a clerical error on the part of the McLaughlin Company data processors and the second such listing was eliminated from consideration.
- B. Similarly, in cases of overlapping bondings -- indications that the same individual was bonded twice at the same time -- clerical error (most likely a failure to record a termination) was also assumed. The second such listing was therefore eliminated from further consideration.
- C. In cases of identical last names of bondees, those bondings with identical social security numbers were considered multiple bondings.
- D. In cases of identical last names without any social security numbers, we assumed multiple bondings took place if the first names were identical. (This can be justified on the extremely small likelihood of two identically named individuals being bonded in the same State when fewer than 7000 of 200 million Americans had been bonded at all.)
- E. In cases of identical last names and similar first names (e.g. Levy, F. and Levy, Frederick), multiple bondings were assumed if the individuals were placed in the same city; if the placements were in different cities, no such assumption was made and the two cases treated as different individuals.

These decision rules represent a middle ground between the most conservative extreme -- counting only social security verified multiple bondings as multiple bondings, and the most generous extreme -- assuming multiple bonding in all cases in which no contradiction appears between the names. The rejection of the conservative extreme was justified on the following grounds: of those verifiable multiple bondings, i.e. those with social security numbers, roughly nine percent of the total represented cases in which names on the files were not identical, thereby justifying the belief that there are additional multiple bondings beyond those which include identical names.

On the other hand, the non-identical bondees names represented only nine percent of the total, suggesting that caution should be utilized in making assumptions of multiple bondings. In questionable cases, we therefore imposed the additional decision criterion that in cases of possible discrepancy, multiple bondings were only assumed to take place where bondees were in the same city. In addition, there is reason to speculate that when the social security number was recorded, full legal name was much more likely to have been submitted and subsequently printed out. Thus we might expect a lower probability of identically recorded names for the same individual when no social security numbers were provided.

Formatting problems with the McLaughlin print-outs hampered our ability to discern all cases of similar names to which the rules could be applied. In the first place, cross referencing of all names from the pre-1970 and post-1970 print-outs would have required staff time commitments far outweighing the increment of additional accuracy which could be expected to result from this process. Therefore, cases in which an individual (a) was bonded and terminated prior to January 1970 and (b) was then again bonded subsequent to that date were not cross referenced, and thus there was no way of detecting

multiple bonding.

Secondly, the pre-1970 print-outs were not arranged in a manner which facilitated easy comparison. Unlike the latter print-outs which were arranged alphabetically by bondees last name for each State, the earlier print-outs were arranged by employer in each city. This in turn meant that considerable time was required to determine if bondees in the same city had the same last name. Efforts to move beyond this and to cross-reference pre-1970 bondees among cities in the same State, and to cross reference all bondees among States were also abandoned because of the inordinate time demands involved relative to estimated payoff.

The application of the above-stated rules under the above-stated formatting handicaps results in the following:

6692 reported bondings

6661 actual bondings (after subtracting duplicates and contradictory listings)

6403 individual bondees

These final figures can be compared with the maximum possible number of bondees (the number under the conservative assumption) of 6599 and a minimum number (under the generous assumption) of 6341.

3.0 MT-110 Forms

The MT-110 (later MA-110) forms contain a broad range of information concerning the background of bondees and previous work experience. As such, they provide considerable information which may prove useful in explaining differences in bonding and post-bonding experiences of program participants. Unfortunately, these forms were only required to be completed by Employment Service staff during the period prior to the time when bonding became a national program.

Once the experimental and demonstration phase of the bonding program history was over, it was decided that additional background data was no longer needed, and that reporting requirements should be reduced to a minimum to conserve the time of Employment Service staff. Therefore there were no requirements to complete these forms for anyone bonded after July 1, 1971.

Initial analysis of the MT-110 forms supplied by the Department of Labor revealed that in some cases there are problems of legibility of specific responses, and in others there are failures to fill in all items on each form. But the primary problem with the available MT-110 data is its incompleteness. In other words, the Department of Labor has thus far provided us with only about five-ninths of the total number of MT-110 forms which were completed by E.S. staff.

In all, 1849 MT-110 forms were supplied to Contract Research Corporation. Of these, 343 were duplicates, leaving MT-110 forms for 1506 bondees. This represents only 58.5% of the 2573 bondings from the initiation of the program through the close of calendar 1970, the last full year in which MT-110 forms were required. (According to Training and Employment Service Program Letter 2624, dated January 25, 1971, MT-110 forms were required from January 1, 1971 to June 30, 1971 "from only those State agencies participating in the experi-

mental demonstration" prior to 1971 "in order to complete statistical reporting requirements of the experimental phase of the Training Placement Assistance Demonstration Projects.")

A more complete breakdown of the availability of MT-110 forms by State and by year is presented below. As can be seen from Tables A-1 through A-3 below, the problem of missing MT-110 forms is particularly severe for calendar 1970. Only 2 of the 658 bondings for calendar 1970 (as indicated on the McLaughlin print-outs) were recorded in MT-110 forms which are now available to Contract Research Corporation. (In addition to this no MT-110 forms for calendar 1971 have been made available.)

Efforts to determine the availability of additional MT-110 forms among individual State Employment Security Agencies are now under way.

A second weakness of the available MT-110 forms is the lack of information concerning second bondings for a single individual. Although there is space on the MT-110 forms for additional bondings, there are almost no such listings for those cases in which the computer print-outs seem to suggest multiple bondings.

TABLE A-1

MT 110 Inventory Overview

	Bondings	MT 110s Available	MT 110s Missing
1966-69	1915	1504 (78.5%)	411 (21.5%)
1970	658	2 (0.3%)	656 (99.7%)
TOTAL	2573	1506 (58.5%)	1067 (41.5%)

TABLE A-2

MT 110 Inventory - State by State

1966-1969

	Bondings	MT 110s Available	MT 110s Missing
California -			
L.A.	380	311	69
S.F.	172	136	36
Santa Anna	160	122	38
Sacramento	61	42	19
New York	110	90	20
Vera Instit.	4	0	4
Washington, D.C.	173	146	27
Lorton	8	8	0
Alabama -			
Draper	35	21	14
Birmingham	11	6	5
Missouri -			
Kansas City	209	190	19
St. Louis	9	8	1
Ohio -			
Cleveland	15	14	1
Toledo	3	2	1
Dayton	8	5	3
Cincinnati	10	8	2
Columbus	25	17	8
Youngstown	1	1	0
Akron	2	2	0
Illinois	245	207	38

MT-110 (cont'd)

	Bondings	MT 110s Available	MT 110s Missing
Baltimore, Md.	14	9	5
Detroit, Mi.	37	30	7
Massachusetts	29	20	9
Newark, N.J.	39	26	13
San Antonio, Tex.	14	8	6
New Orleans, La.	3	3	0
Pennsylvania -			
Philadelphia	7	2	5
Pittsburgh	9	8	1
Atlanta, Ga.	33	23	10
Portland, Or.	89	39	50
TOTAL 1966-69	1915	1504	411

TABLE A-3

MT 110 Inventory - State by State

1970

	Bondings	MT 110s Available	MT 110s Missing
Alabama	81	2	79
California	283	0	283
Washington, D.C.	13	0	13
Georgia	12	0	12
Illinois	70	0	70
Louisiana	3	0	3
Maryland	4	0	4
Massachusetts	12	0	12
Michigan	16	0	16
Missouri	18	0	18
New Jersey	4	0	4
New York	32	0	32
Ohio	31	0	31
Oregon	53	0	53
Pennsylvania	3	0	3
Texas	23	0	23
TOTAL	658	2	656

4.0 Claims Data

The summary claims data made available by the McLaughlin Company generally contain the information needed to meet the default data requirements set out in the research design (name of individual for whom claims were filed, date of claim, amount of claim, nature of claim, and disposition of claim).^{*} In addition, in many cases, they provide additional information which may prove useful in explaining differences in rate of default among bondees, for example the SIC code for the employer.

Initial analysis revealed that the claims data made available by the McLaughlin Company is relatively complete and is updated on a regular basis. As of November 30, 1974, Contract Research Corporation had summary data for 277 claims, 216 of which had already been resolved and 61 of which were still pending. In general, the needed information is present on each of the 277 claims summaries. The major exception to this is the SIC designation for claimants which is available for only 40 cases. In the remaining cases, it will be necessary for Contract Research Corporation staff to review the information concerning employers, determine the appropriate SIC classification, and add this to the data by hand.

^{*}Design, pp. 10.

5.0 Analysis of Results and Implications for the Conduct of the Study

5.1 McLaughlin Monthly Computer Print-outs

The McLaughlin computer print-outs will provide much of the data needed to meet the research objectives described on page 9 of the research design: to provide systematic data concerning the bonding and post-bonding experiences of program participants and to provide additional information which may help to explain the differences in experiences. In particular, they will provide the specific characteristics of bonding program participation and (in some cases) some characteristics of placement occupation and jobs.*

The initial review of the McLaughlin computer print-outs data described in Section 2.0 suggests that further analysis of those data can proceed once a computer is programmed to make the indicated changes in the raw data. Once the program has been developed and executed, it will then be possible to determine the distribution of such basic descriptors of program activity as geographic distribution of bondees, date of bonding, length of bonding and units used. As indicated in Section 2.0, the question of multiple bondings cannot be completely resolved. Thus the statistics for bondings and bondees will contain some potential error as a result of unresolvable ambiguities in a few cases. The decision rules employed to determine whether multiple

*See "Data Requirements and Sources," Design, pp. 10-11.

bondings have occurred as described in Section 2.0 are not perfect, but they are reasonable, and should yield a more accurate picture of actual program operation than is currently available.

5.2 MT-110 Forms

The MT-110 forms contain data which will be quite useful in attaining the second of the bondee research objectives listed on page 9 of the research design: to provide information which may help to explain differences in bonding and post-bonding experiences of program participants. In particular, for those bondees for whom MT-110 forms are available, they will provide the data elements relating to the characteristics of bondees (demographic, previous work experience, previous criminal record, previous residence), as well as reason for denial of bond, and (in some cases) some characteristics of the placement occupation and jobs.*

The major gaps in the availability of MT-110 data -- and especially the virtual absence of any forms from beyond 1969 -- have resulted in a decision to postpone further analysis of these data until efforts to collect the missing forms have been completed. Inquiries are now being made of the relevant State Employment Service offices to determine whether the missing data still exists at the State or local office levels, and to obtain it if possible.

Decisions concerning the further treatment of the MT-110 data will be dependent upon the results of the Employment Service inquiries. But in any event, further analysis of the representativeness of the bondees for whom MT-110 data is available -- as compared to the universe of bondees -- will be necessary before any conclusions can be drawn from analysis of the available data.

*See "Data Requirements and Sources," Design, p. 11.

5.3 Claims Data

As indicated in Section 4.0, the available claims data appears to be sufficient to meet the data requirements for "default data" described in the research design: names of individuals for whom claims were filed, dates of claims, amounts of claims, nature of claims, and dispositions of claims.* This data, when combined with additional information, can help to answer questions such as whether certain kinds of bondees are more or less likely to have specific kinds of claims filed, to have certain kinds of claims paid on them, and so forth.

The actual transformation of the data to card images and further analysis is being held in abeyance, however, pending the conduct of the interviews with key insurance industry officials. As indicated in the research design, this will enable us to conduct the kind of analyses which insurance industry officials report would be most likely to be meaningful in terms of their own current accounting and recordkeeping practices. In particular, it will be important to present our analysis in the format and using the conventions with which industry officials are most familiar. While this does not guarantee that such analyses will influence these officials, it does maximize the chances of this happening.

5.4 Summary Conclusions

Overall, the data made available to Contract Research Corporation has the potential for meeting many of the objectives set out in the research design. The richness and level of detail of the analysis of this data will, however, depend in part upon the availability and completeness of the follow-up data which can be collected for bondees. To the extent that followup data is unavailable and/or incomplete, it may be necessary to engage in more

sophisticated analysis of the currently available data in order to provide needed policy inputs.

As indicated above, additional analysis of the McLaughlin print-outs is now underway. Analysis of the MT-110s is suspended until the availability of data on additional bondees can be determined. Analysis of claims data is being held in abeyance until further input on the nature of that analysis can be obtained from insurance officials.

APPENDIX B

Assignment of SIC Categories to Bonded Jobs

ASSIGNMENT OF SIC CATEGORIES TO BONDED JOBS

Assignment of Standard Industrial Classification (SIC) Categories to jobs held by bondees was carried out for:

- Claims data analysis
- Employer response analysis
- All bondee jobs in Illinois
- Jobs held by the State of Illinois labor force
- Some bondee jobs in other states

The reference document used was the Standard Industrial Classification Manual, 1967;* Prepared by the Office of Statistical Standards of the Bureau of the Budget (OMB).

With the exception of the SIC assignments which appeared on the McLaughlin monthly print-out for 2432 bondings, all other SIC numbers were assigned on the basis of company names, generic descriptions (where provided, e.g. Illinois MT-110 forms) and any additional job-related information which was available (e.g. claim summary).

An attempt was made to make the SIC assignment at the 4-digit level of detail; however, most of the analysis was done only at the two-digit level because of the need to make comparisons between different sets of industrial distributions, e.g. the State of Illinois job types versus the bondee jobs in Illinois.

In many instances it was necessary to make a judgemental decision for some jobs, particularly in the cases where it was unclear whether the establishment was a wholesale or retail outlet. In the event of multiple services or products, the service or product which appeared to be dominant was used as the basis for classification.

*The more recent version of the SIC Manual was unavailable at the time SIC assignments were begun. Consequently in order to maintain consistency the 1967 Manual was used throughout. In addition to the fact that the 2-digit level classifications appear similar in both, the SIC data is intended to be used as a set of indicators and not as an absolutely precise, detailed break-down.

APPENDIX C

Report on Employer and Bonded Survey Pretest (and Addendum)

Update on Employer Survey Data

(Report Submitted to Department of Labor, March, 1975
plus addendum and update.)

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1.0 Summary

The Research Design for an Analysis of the Federal Bonding Program describes two major categories of data which can be used in assessment of program performance: data already in the possession of the Department of Labor and its contractor, the McLaughlin Company; and additional data to be collected by Contract Research Corporation. During the months since November, 1974, Contract Research Corporation has undertaken a series of activities designed to explore the feasibility of contacting current and former bondees and their employers in order to obtain information from them.

The employer and bondee survey pre-tests are described in Sections 2 and 3 of this paper respectively. In each case, the discussion includes the rationale for the activities undertaken; the approach utilized; the results of the pre-tests; and the implications of the pre-test for further data collection activities. In summary, the employer survey pre-test results indicate the soundness of the proposed approach, a mail followup survey of approximately 5% of the employers of bondees. The results of the bondee pre-test, however, strongly suggest that further bondee followup activity would be unproductive.

2.0 The Employer Survey

2.1 Introduction

Department of Labor staff members have expressed the hope that participation in the bonding program would cause employers to reexamine and modify their hiring practices toward ex-offenders. In particular, it has been hoped that employers would become more willing to hire ex-offenders and to encourage their insurers to provide bonding coverage for these hard-to-bond individuals.

The employer analysis outlined in the research design was developed in order to assess the extent to which these and related hopes have been fulfilled. The objectives of the employer analysis stated in the Research Design for An Analysis of the Federal Bonding Program are:

- To provide systematic data concerning the changes in employer attitudes and behavior which followed participation in the bonding program
- To provide additional information which may help to explain these changes.

The design also identifies four kinds of data which would be useful in achieving these objectives:

- Employer Attitudes (e.g., opinions of the bonding program, willingness to hire ex-offenders)
- Employers Actions (e.g., hiring of additional hard-to-bond, action at expiration of bonding time limit)
- Characteristics of Employers (e.g., SIC, size, location; use of ES, number of bondees)
- Employer relations with the Fidelity Bonding Industry (e.g., proportion of employees covered by fidelity bonding, length of time with current insurer)

Although some information concerning employer characteristics is contained in the McLaughlin monthly progress reports and MT-110 forms, very little of the required data is currently available in either Department of Labor records or those of the McLaughlin Company. For this reason, achievement of the employer analysis objectives requires contacting employers directly and utilizing survey instruments. The design therefore calls for drawing a stratified random sample of employers who have participated in the program and administering survey instruments to the employers in

this sample.

The positive response received from employers in the Phase I bondee survey pre-test (see Section 3 below) led Contract Research Corporation to believe that mailing instruments to employers would provide the needed data in a more cost-effective manner than would in-person interviews. A pre-test of both the procedures and instruments to be utilized in such a survey took place in February and March, 1975.

The remainder of this Section of the report includes a summary of the activities undertaken in the employer survey pre-test, the results of that pre-test, and the implications of these findings.

2.2 Approach

The methodology utilized in the employer survey was straightforward. A survey instrument was developed, refined, and submitted to the Contract Officer for review and approval. Following receipt of this approval, the instrument was mailed to a sample of 32 employers, randomly selected from the July, 1974 McLaughlin computer printout, the same print-out that is being utilized in the computer analysis of available McLaughlin monthly progress report data. (This procedure restricted the universe from which the pre-test sample was drawn to employers of bondees who had participated between January 1, 1970 and July 31, 1974. This fact may have introduced some positive bias into the response rate).

Employer names and cities were taken from the McLaughlin printouts; street addresses were obtained from telephone directories. Reminder postcards were mailed to all employers who had not returned their instruments within ten days of the initial mailing.

2.3 Results

As is indicated in Exhibit 1, 12 of 32 employers returned completed instruments within five weeks of the initial mailing. This represents a response rate of 38%.

Virtually all of these employers reported more than one employee participant in the program. In all, their responses provide information for a minimum of 59 bondees.

(It is impossible to state precisely how many bondees are represented because the relevant item in the instrument was a closed end item utilizing ranges rather than precise numbers).

Exhibit 1

Results of Employer Survey

Instruments mailed	32 (100%)
Completed instruments received	12 (37.5%)
Employers moved or out of business	4 (12.5%)
Pending	16 (50.0%)

In four of the 32 cases, the United States Postal Service reported that the employer was no longer at the address to which the instrument was sent. The Postal Service had no forwarding address in three of these cases. We have assumed that a business establishment which moves without a forwarding address can be considered to be out of business.

Sixteen employer instruments are pending; assuming that the Postal Service has not misplaced the instruments, this means that the instruments were received by officials of the organization employing the bondees but no response has yet been made.

Since there are no available statistics concerning the kinds of employers who have participated in the bonding program, it is impossible to tell whether any response biases were introduced by the methodology employed.

Analysis of the completed instruments reveals no problems with the wording or interpretation of any of the individual items. Respondents did not appear to be confused by any of the items; nor did they fail to understand any of the accompanying instructions.

2.4 Conclusions

Both the positive response rate and the apparent absence of problems with the

instrument suggest that it is feasible to proceed with the employer follow-up survey. Accordingly, a sample of 300 employers has been selected by a random procedure from the universe of all employers of bondees who have participated in the program from its inception through July 31, 1974. Selections were made through use of a random numbers table applied to the CRC-assigned identification number for each bondee. This procedure has provided an implicit weighting to the likelihood of inclusion of any given employer in the sample; the likelihood of this occurring is directly proportional to the number of bondees who have worked for the given employer.

Addresses for the employers of bondees which were available from the McLaughlin monthly printouts were taken from this source. Addresses for the remaining employers were obtained directly from the files of the McLaughlin Company.*

All instruments have been mailed, and preparations are being made to send reminder post-cards to non-respondents as was done in the pre-test.

The results of the employer survey will be presented in an "Employer Followup Report" to be submitted to the Department of Labor in May, 1975.

* In a few cases, it was impossible to locate information concerning the employers in the McLaughlin files (which have not been kept in strict chronological order). In these cases, telephone directories and directory assistance were used to fill the gaps.

3.0 The Bondee Survey

3.1 Introduction

The objectives of the bondee analysis stated in the Research Design for An Analysis of the Federal Bonding Program are:

- To provide systematic data concerning the bonding and post-bonding experiences of program participants
- To provide additional information which may help to explain these differences

Specifically, the design identifies seven kinds of data which would be useful in achieving these objectives:

- Default data
- Characteristics of bonding program participation (e.g., amounts of coverage, length of time covered, and so forth)
- Characteristics of placement occupations and jobs
- Characteristics of bondees (e.g., demographic data, criminal records)
- Reason for denial of bond
- Post-placement employment histories
- Post-placement criminal justice record

Much of this information is available in whole or in part from data sources provided to Contract Research Corporation by the Department of Labor, including the McLaughlin Company monthly program reports; the McLaughlin default summaries; and the Department of Labor designed MT-110 forms. But the last two data items listed above are not available in any existing Departmental records, and are obtainable only to the extent that bondees (or their employers) can be located and are willing to provide additional information.

Completion of bondee followup activities therefore would provide information about the program that is not otherwise available, and would corroborate information available through existing reporting systems. For this reason, the research design includes the following two proposed data collection activities:

- Collecting some followup data from all bondees

- Collecting additional data from a carefully selected representative sample of bondees

Three phases of pre-tests for the bondee survey were undertaken by Contract Research Corporation between November, 1974 and March, 1975. The results of the first two of these phases were discussed in the paper "Bondee Follow-up: Summary of Pre-test Phases I and II" submitted to the Department in December, 1974. The instruments and procedures employed in Phase III were included in the paper, "Methodologies and Instruments to be Employed in Data Collection," submitted in February, 1975.

The remainder of this paper includes a summary of the activities undertaken in the bondee survey pre-test, the results of the pre-test, and the implications of these findings.

3.2 Approach

The difficulties involved in tracking participants in manpower programs are increasingly well-known, and have been discussed in several important articles in the academic literature.* Ex-offenders and disadvantaged Americans move often and frequently do not bother to leave forwarding addresses. Some manpower program participants have no permanent address at all; others may wish to remain unlocated.

All of these problems are present in the case of participants in the Federal Bonding Program with one major additional problem. In most efforts to follow manpower participants, the problem is trying to find out what has happened since the individual has lived at the address given on some program record. In the case of the bonding program, there are no addresses whatsoever for roughly two-thirds of the program participants, and outdated addresses ranging from 5 to 9 years old for the remainder. In addition to this, the Department of Labor has these outdated addresses for only about 60% of the individuals for whom addresses should be available.

For those individuals for whom no addresses are available, the only starting point for follow-up activities is their place of employment during the program.

* See, for example, the articles by Barnes, Homans, and Lewis in Evaluating the Impact of Manpower Programs (ed.) Michael Borus (Lexington: D.C. Heath, 1972).

Individuals who are still bonded can presumably be reached at their employer's place of business. Those who were formerly employed can only be traced to the extent that their former employers have (and are willing to provide) some home address or place of later employment for the bondee.

In order to conduct bondee follow-up under these conditions, three possible approaches were investigated:

- Wherever addresses were available (i.e., MT-110 forms had been completed for bondees and these forms are available) efforts were made to reach bondees at those addresses, providing "address correction" procedures for forwarding.
- Where home addresses were unavailable, efforts were made to contact the employers (or former employers) of bondees to ascertain whether they had any useful information in terms of locating bondees.
- Where program records indicated that bondees were still participating in the program, efforts were made to reach them directly at their place of employment.*

These activities are described in greater detail in Section 3.3 below along with a discussion of their results.

3.3 Results

3.3.1 Overview

Three phases of the bondee survey pre-test have been implemented in order to provide information concerning the feasibility of an all bondee mail (or telephone) followup and an intensive effort to provide additional data concerning a representative sample of bondees. The November, 1974, Phase I pre-test was designed to test the feasibility of locating bondees through their bonding placement employers. A sample population of the employers of 100 bondees was drawn from the States of Massachusetts and Connecticut and from New York City, and a brief instrument was mailed to each employer inquiring about the bondee's last known address and dates of employment. The employers of 22 of the bondees responded, but they could provide forwarding addresses for only 10 bondees. (As indicated above, both the procedures

* As is indicated below, the pre-test has provided some indications that the print-outs are not fully up-to-date concerning termination of program participants, a fact which further complicates follow-up activities.

and the results of the Phase I pre-test are discussed in greater detail in "Bondee Follow-up: Summary of Pre-test Phases I and II," submitted to the Department in December, 1974).

Subsequently, a Phase II telephone follow-up was conducted for all non-respondents from Phase I in order to make every reasonable effort to obtain addresses from employers. The Phase II telephone follow-up activities provided a total of 15 more possible bondee addresses, leading to a total of 25 out of the original sample of 100. Except for those bondees whom employers reported to be still employed, however, it was not clear whether any bondees could in fact be contacted at the addresses provided by the employers. This could only be determined through efforts to reach bondees at these addresses; these efforts constituted Phase III of the pre-test.

Phase III therefore involved developing a survey instrument and mailing it to available bondee addresses. A draft instrument was prepared and submitted to the Contract Officer for review and approval. Following receipt of this approval, instruments were sent to three sub-sets of bondees: those for whom addresses were obtained in Phases I and II ("Phase I and II bondees"); those for whom addresses were available from MT-110 forms, ("MT-110 bondees"); and those who were listed on the most recent monthly progress reports as being still bonded (and who, therefore, could be expected to be reached through correspondence sent to their place of employment).

The "still bonded" and "MT-110" bondees were chosen through a random selection process; the "Phase I and II" bondees represented the total of all possible addresses obtained from earlier locational efforts. Business addresses for the still employed bondees were obtained from the McLaughlin printouts and telephone directories.

The Phase III mailing took place in mid-February, 1975. Reminder postcards were sent to all non-respondents ten days after the initial mailing. Analysis of the results of the bondee survey pre-test was completed by the end of March. The results of this analysis are presented below.

3.3.2 The "MT-110" Bondees

During Phase III, instruments were mailed to a random sample of 75 bondees for whom home addresses were available through MT-110 forms. As is indicated in Exhibit 2 below, only two of the instruments were returned and completed, representing a response rate of 2.7%. Moreover, 69 of the remaining bondees (92%) were totally unreachable: they no longer lived at the addresses listed on the MT-110 forms and had left no forwarding addresses.

Both MT-110 respondents indicated that they had no recollection of participating in the bonding program. This eliminated any possibility of distinguishing post-bonding program events from others which they had experienced, thereby destroying the utility of their responses for data gathering on post program experiences of bondees.

3.3.3. The "Phase I and II" Bondees

During Phase III, instruments were mailed to all 25 of the 100 Phase I and II bondees for whom addresses were available. This procedure produced a total of 4 completed instruments, representing an overall response rate of 4%. One additional former bondee telephoned to indicate displeasure with being surveyed, but agreed to provide some information. Thus, for some purposes, it can be said that information was received from 5 of the 100 Phase I and II bondees. (Telephone contact with non-respondents was not part of the pre-test however, and inclusion of such activities in the full-scale bondee survey adds considerably to the staff time required, with an extremely uncertain pay-off).

All but one of the 20 non-respondents to Phase III were unreachable; the U.S. Postal Service returned 7 instruments stamped "undeliverable" and "no forwarding address"; the remainder were not returned to us by the Postal Service (despite their being sent "address correction requested"). Their addresses were verified as being incorrect, however, with no definite "forwarding phone number" available, by the

EXHIBIT 2
RESULTS OF BONDEE SURVEY

	Total Number in sample	Unreachable*	Possible Respondents Cases Pending	Instmts. Returned & Completed	Misc.
MT 110s	75	69 (92%)	4	2 (2.7%)	
Still Bonded	82	22 (26.8%)	42**	18 (22%)	
Phase I & II	25	19 (76%)	1	4 (4%)	1**
	182	102	45	24***	1***

* Instruments returned by Postal Service and/or no address available from directory assistance. In a few cases, there are several listings under the same name in a city. To contact these bondees would require contacting every person in the city with the same name.

** In these cases it has not been determined whether the bondee received the questionnaire. Instruments for the still bonded group were sent care of employers and it is difficult to determine whether the bondee actually received the instrument.

*** Some information collected over telephone from a bondee who refused to cooperate.

telephone company's "directory assistance" staff.*

Analysis of the 4 completed instruments provides further indication that the response rate for a full-scale mailing would be lower than the 4% encountered in Phases I, II, and III, and that the returns would probably be atypical of the universe of bondees. Two of the 4 returns came from individuals whom Phases I and II had indicated were still employed at the company of their bonding placement; thus Phase III instruments were mailed to these bondees in care of their employers. This fact indicates that the payoff for conducting Phases I, II, and III for the roughly five-sixths of the bondees who are no longer bonded or working at their bonding placement, was only 2 out of 84, representing a response rate of 2.4%. In addition to this, the information provided by the 2 individuals who are still employed at their original bonding placement is further limited in usefulness since--by definition--these individuals could not provide any post-bonding information, which is the basic purpose of the followup.

It should also be noted that all 4 respondents were bonded in February, 1972 or later; this is considerably later than the average bondee**.

This suggests that the responses received from a full-scale bondee survey based upon Phases I, II, and III would provide responses which were heavily biased towards more recent bondees, thereby limiting the usefulness of the information obtained.

No responses were obtained from the bondees in the sample when we had MT-110 data, suggesting that the Phase I and II approach is even less effective than the approach discussed in Section 3.3.2 for these individuals.

* In some cases, directory assistance was able to provide telephone numbers for individuals with the same or similar names in larger cities, but there was no certainty that these were the same individuals.

** On-going analysis of the data provided by the McLaughlin monthly printouts has provided preliminary indications that the median time of bonding was in 1971.

3.3.4 The "Still Bonded" Bondees

During Phase III, instruments were mailed to 82 individuals who were listed in the most recent printouts as being still bonded. This permitted us to send the instruments to bondees in care of their employers. Eighteen of these bondees completed and returned their instruments, representing a response rate of approximately 22%. Seventeen instruments were returned by the U.S. Postal Service as "undeliverable" or "no longer there", suggesting that the businesses involved were either incorrectly listed on the printouts or were no longer in operation. A total of 4 instruments were returned blank, indicating a bondee disinclination to provide the needed information.

The response rate of about one in five bondees in this group suggests that a significant proportion of bondees whom we can track down are willing to complete mailed instruments if they receive them. However, the fact that these individuals are all still participating in the program means that if "still bonded" bondees are the only ones who can be located, it will not be possible to provide data concerning the key questions involving bondee followup as set forth in the research design, i.e. questions concerning the post-placement employment history and post-placement involvement in the criminal justice system. In other words, "still bonded" bondees would provide an important supplement to data collected from other program participants, but are not a sufficient source of followup information to meet the objectives of the research design if employed as the sole bondee survey group.

Moreover, there are some indications of a strong response bias among the "still bonded" respondents. Comparison of the demographic data for the "still bonded" respondents with MT-110 data for the first 689 program participants* suggests that the former group is considerably older than the latter, and contains considerably fewer minority group members.

*"Statistics: U.S. Department of Labor Bonding Project, FY67-68", Data Processing Academy, South Carolina Department of Corrections, (1969).

3.3.5 Additional Problems Encountered

Apart from the results of the specific Phase I, II and III bondee followup pre-test, as discussed above, there are a number of broader considerations which must be taken into account when decisions are made concerning the feasibility and advisability of conducting further bondee survey activity. The most important of these are the strong overall response biases which appear to result from all of the survey procedures.* As is indicated in Exhibit 3, this bias appears to be most strong with respect to bondee educational level. Respondents in all our surveys appear to have a considerably higher educational level than those bondees for whom the Department has collected and analyzed MT-110 data. Survey respondents have reported an average of 13 years of education; this figure can be compared with a reported mean of 10.6 years of education reported for the first 689 bondees.** In addition, our respondents appear to be coming disproportionately from among bondees who are white and female than the reported mean.

A second important issue is the strong feelings expressed by a number of bondees contacted that they resented the "intrusion" of a followup survey so long after their participation in the bonding program. For these bondees, their previous criminal record, and the participation in the program which symbolized that record, were something they wished to put behind them. In one case, an individual had changed his name and moved to a new location in an effort to "start a new life";

* As indicated above, one can only estimate response bias because of the lack of information concerning the universe of bondees. (This problem would not have existed had there been MT-110 forms on all bondees; but in the absence of the data from these forms, one can only make extrapolations from data on those bondees for whom forms are available.)

** "Statistics: U.D. Department of Labor, FY 67-68," Data Processing Academy South Carolina Department of Corrections, (1969).

EXHIBIT 3

INDICATORS OF RESPONSE BIAS IN BONDEE SURVEY

RACE

Phase III Respondents*			67-68 Report**		
(N = 25)			(N = 689)		
	No.	%	No.	%	
Unknown	0	0	26	3.8	
White	19	76	432	62.7	
Nonwhite	6	24	231	33.5	
Totals	25	100	689	100.0	

SEX

	No.	%	No.	%	
Unknown	0	0	11	1.6	
Female	4	16	68	9.9	
Male	21	84	610	88.5	
Totals	25	100	689	100.0	

EDUCATION

Phase III Respondents: 13 years
 67 - 68 Sample: 10.6 years

*Mail Survey of 257 Bondees, conducted by Contract Research Corporation

**USDOL Bonding Project, FY 67-68, Statistics, Data Processing Academy, S.C. Dept. of Corrections, Columbia, S.C. (1969)
 No current information on Bondees is available.

this individual felt that tracking him down represented an unwarranted intrusion upon his privacy. Similar strong feelings concerning the unappropriateness of followup activities at this time were communicated to Contract Research Corporation staff by a number of other bondees as well.

3.4 Conclusions

Analysis of the bondee survey pre-test results strongly suggests that continued bondee survey activities would be inappropriate. Based upon these results, there is no feasible way to locate the majority of the participants in the bonding program and to obtain useful followup data from them. There is virtually no way in which the MT-110 bondees--the participants in the Trainee Placement Assistance Demonstration Projects--could be contacted, short of the elaborate and expensive procedures discussed in the literature such as personally contacting former neighbors and proprietors of shops which program participants had presumably frequented.

The combined Phases I, II, and III procedures represent a highly time-consuming and expensive set of activities; the results of the pre-test indicate that further expenditure of time and resources on such activities would be unproductive and unjustified.

The "still bonded" group appears to offer the most "reachable" set of program participants, but there is no way to collect post-bonding employment histories or criminal justice experiences from this group which cannot therefore serve as the sole source of bondee followup information. Furthermore, there is some evidence that the "still bonded" respondents are atypical of the overall bondee population.

The results of the pre-test therefore indicate that it would be virtually impossible to locate and collect data from a representative sample of bondees as discussed in the "Research Design for An Analysis of the Federal Bonding Program"; and that the expected limited results of a mailing to all bondees (which would involve replication of Phases I, II, and III) do not justify the major effort involved.

In addition, it should be noted that the employer followup survey described in

Section 2 above should provide some information concerning the post-placement experience of bondees. This fact still further reduces the advisability of conducting bondee followup activity to obtain the same data.

In short, it appears to be futile to implement followup activities after the fact, when no provisions were made in the bonding program design to collect even the home addresses of program participants. If the Department of Labor wishes to collect such information, it would be possible to begin a longitudinal study at this time by selecting (a sample of) current bondees; by informing them of the desire to conduct followup (this is an important step); and then by proceeding to contact them at periodic intervals. This activity is, however, beyond the scope of the current study.

ADDENDUM TO
ANALYSIS OF THE FEDERAL BONDING PROGRAM:
REPORT ON EMPLOYER AND BONDEE SURVEY PRE-TESTS

Background

The "Analysis of the Federal Bonding Program: Report on Employer and Bondee Survey Pre-Tests" was submitted to the Department of Labor in March, 1975. That report reached the following conclusions:

- Both the positive response rate and the apparent absence of problems with the instrument suggest that it is feasible to proceed with the employer follow-up survey.
- Analysis of the bondee survey pre-test results strongly suggests that continued bondee survey activities would be inappropriate... (given the unavailability) of home addresses of program participants.

Subsequent Activities

As indicated in the first conclusion, employer follow-up activities were carried out. The responses to the employer follow-up survey are reported in Section 3.2 of this report. The survey is described in greater detail in Update of Employer Survey Data in Appendix C.

Subsequent to the submission of the "Report on Employer and Bondee Survey Pre-Tests", MT-110 forms--and hence home addresses--became available for (virtually) all Illinois bondees. As a result of this, after consultation with the Project Officer, Contract Research Corporation initiated a bondee follow-up mail survey directed to all Illinois bondees for whom legible and complete addresses were possible. At the same time, an identical mailing was sent to any other bondees for whom legible and complete home addresses were also available.

The results of the bondee follow-up survey are discussed in Section 3.4 of this report. The details of the survey are presented in "Update on Bondee Follow-up" in Appendix D.

UPDATE ON EMPLOYER SURVEY DATA

A thorough and germane analysis of employer follow-up data is constrained by several areas of weakness in the data available. Instruments were mailed to 312 employers. Of these 312, 63 were returned. This represents a return rate of approximately 20.2 %. One-fifth of a random sample of 312 does not allow for drawing general conclusions about the sample. However, this problem is further aggravated by two factors:

- Of the 63 respondents, only 49 indicated that they use fidelity bonding, and
- Of the 49 who carry such insurance, 35 indicated that they had hired bondees through the Federal Bonding Program

Thus, the bulk of information gathered from employers is based on the responses of the 35 who responded positively regarding their participation in the program.

Although it is impossible to determine exactly why the useable response rate was so low, several likely contributing factors can be identified.

- There had been a lapse of five years or more in some cases, between involvement in the bonding program and receipt of the follow-up instrument. Many businesses had moved or closed during this time (were returned by the post office).
- Often, the individual responsible for completing the questionnaire apparently did not have sufficient knowledge regarding company policies. (This is supported by the fact that many questionnaires were marked "don't know" to basic questions regarding the firm's use of bonding.)

The combined responses of the 35 participating employers are also of questionable value in drawing general conclusions. Several possible biases exist:

- The employers who returned completed questionnaires could represent disproportionately those who were satisfied with the performance of the Federal Bonding Program bondees.
- Since so few of the 35 respondents had submitted claims, it is apparent that those who did are not represented. It is not possible to tell whether those employers who did submit large claims were less or more satisfied than respondents were.

- These employers could represent only the most stable businesses and thus perhaps those most likely to have kept records and to have been aware of their participation in the program.
- Employers who misused the Bonding Program by requiring bonding only for the participants because it was at no cost may not be represented by respondents.

In addition, the employer follow-up instrument is weak in some areas, although it was pre-tested.

- The skip pattern instructs respondents who did not participate in the Federal Bonding Program to skip to the end of the instrument. However, it would be interesting to compare the use of the Employment Service by these employers to that by others.
- Although the use of ranges is useful in establishing the size of the firm and the number of bondees hired, a more accurate picture, or at least a closed total range is desirable.
- The charts on page 5 of the instrument were intended to gather information regarding the tenure of each bondee as well as any arrangements which were made when coverage under the program was terminated. However, apparently many employers did not understand the chart and/or found it too cumbersome. Fewer than half of the 35 employers filled out the chart completely and correctly.

However, in spite of these obvious inadequacies in employer data, the data collection process and its results provide some useful insights. This is the first attempt which was made to collect this type of data; thus any trends, even if not conclusive, are helpful in gaining an understanding of the Federal Bonding Program process and impact. In addition, the low response rate points out possible characteristics of the program. It is possible that Employment Service administrators and client service staff utilized the Program without actually informing the bondee or the employer about the substance of the program. Thus, many employers may have had only a vague idea about how the program bondees were actually insured.

APPENDIX D

Bondee Follow-up: Summary of Pretest Phases I and II

Update on Bondee Survey Data (Phase IV)

(Report Submitted to Department of Labor,
December 1974 and update.)

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1.0 Overview

The key to any follow-up study of the Federal Bonding Program is, of course, the extent to which one can locate and obtain valid information from bondees. The M-110 forms provide addresses for bondees, but almost no forms for individuals bonded after 1969 are now available (see "Initial Conclusions Drawn From Available Data" for details). Thus, the only available information on bondee addresses for those bonded after 1969 (more than 2/3 of the total number of bondees) would be from employers. On the basis of this limited source, it was not clear whether a sufficiently large and representative sample of bondees could be contacted and induced to cooperate. To explore this question before launching a possibly fruitless and costly full-scale follow-up study, it was decided to carry out a small-scale pre-test.

To be useful, such a pre-test must be identical to the full-scale survey in all relevant respects except size. The pre-test must include a protocol by which location of bondees is to be attempted, and an instrument for obtaining information once they have been located. Since interviewing bondees depends on first locating them, however, it is reasonable to begin by pre-testing the search procedure, and then proceeding on the basis of the results obtained.

The available search options are severely limited by the budget constraints of this study. Mailed questionnaires and telephone interviews appear to be the only practical means of contacting all employers. Questionnaires were therefore mailed to employers (Phase I) and to follow up to non-responses made by telephone (Phase II).

The pre-test target population included the employers of 100 bondees from Massachusetts, Connecticut, and New York City.*

* Detailed procedures employed in the pre-test are included as Attachment A.

It was felt that 100 would provide sufficiently reliable results at a reasonable cost. The three locations provide some geographical variation, while their closeness to Boston will facilitate any in-depth investigation which might be desirable. Moreover, there seems no reason to suspect that these regions differ from others in terms of how cooperative or knowledgeable an employer is likely to be. The results of these phases of the pre-test are presented in the following sections. The final section of this paper contains an analysis of these results and their implications for future bondee follow-up activities.

2.0 Phase I: Mail Follow-Up

As shown in Tables B-1 and B-2, the mailings to the employers of 100 bondees yielded a maximum of eleven bondee addresses. Ten addresses were provided directly by the employer. In another case, the employer refused to provide the address, but indicated that the bondee was still in his employ and that an instrument could be sent to the bondee, care of the employer.

The phrase "maximum of eleven bondee addresses" is used in the above paragraph, because the addresses represent the "last known address" for the bondee as provided by the employer. It will not be possible to determine how many bondees can still be located at these addresses without further follow-up.

TABLE B-1

REGION: RESULTS OF MAILING¹

RESULT	Mass.	Connecticut	N.Y.C.	TOTAL
Employer Out of Business ²	3 3	0 0	8 8	11 11
No Response	12 17	6 6	15 44	33 67
Employer Response ³	4 5	7 9	6 8	17 22
Total	19 25	13 15	29 60	61 100

¹ The number in the upper left represents employers. The numbers in the lower right represent bondees employed by those employers.

² Post Office returned instruments marked "addressee unknown" or "not forwardable."

³ For details, see Table B-2.

TABLE B-2
MAIL RESPONSES¹

REGION:

RESULT	Mass.	Conn.	N.Y.C.	TOTAL
Address Provided	2	1	7	10
Address Unknown by Employer ³	3	7 ²	0	10
Bondee Unknown by Employer	0	1	1	2
Total	5	9	8	22

¹ Numbers represent bondees

² One bondee still employed

³ This may also include some refusals to cooperate

At the other extreme, the mail pre-test produced twenty-two "dead-ends," situations in which there was no address obtained, and no further clues for further investigation. Eleven of 61 employers were out of business, leaving virtually no way to retrieve their personnel records. Two of the employers reported having no record of ever having employed the bondees whose names we provided. Employers of eight bondees confirmed that they had employed the given

bondees, but indicated that they were no longer employed and they had left no forwarding addresses. Finally, the employer of two bondees indicated that it was company policy not to reveal employee home addresses. As indicated above, one of these bondees was still employed and therefore (presumably) reachable, care of the employer; the other bondee was not, leaving another situation in which it would be impossible to learn where the bondee now lives.

In short, of the 100 bondees, potential addresses were available for 11; dead-ends were reached for 22. There remained 67 bondees whose employers had not responded to the mail survey. Phase II of the pre-test was designed to gain information concerning the addresses of these 67 bondees.

3.0 Telephone Follow-Up

Eleven days after the initial mailing, telephone follow-up was initiated with those employers who had not yet returned the survey instruments. Telephone follow-up was conducted for three days, from 25 November through 27 November. The results of the telephone follow-up (Phase II) are summarized in Tables B-3 and B-4 below.

TABLE B-3

TELEPHONE RESULTS¹

REGION:

RESULT	Mass.	Connecticut	N.Y.C.	TOTAL
Employer Unreachable ²	2	1	1	4
	2	1	21	24
Employer Refused To Cooperate	0	1	0	1
	0	1	0	1
Employer Provided Information ³	6	3	9 ⁴	18 ⁴
	6	3	13	22
Outcome Pending	4	1	6 ⁴	11 ⁴
	9	1	10	20
Total	12	6	15 ⁴	33 ⁴
	17	6	44	67

¹ The number in the upper left represents employers.
The number in the lower right represents bondees.

² Presumed out of business

³ For details, see Table B-4

⁴ The number of employers contacted in New York City is 15. One employer appears in two cells: he provided information on two bondees, but information on four more of his bondees is still pending.

TABLE B-4

TELEPHONE RESPONSES¹

REGION:

RESULT	Mass.	Connecticut	N.Y.C.	TOTAL
Address Provided ²	2	2	7	11
Address Unknown by Employer	3	0	1	4
Bondee Unknown by Employer ³	1	1	5	7
Total	6	3	13	22

¹ The totals in this table represent the bondees for all employers who were reached and cooperative.

² The totals in this row include three bondees still employed. Mail sent to them will be forwarded through their employers.

³ This may also include some refusals to cooperate.

As is shown in the table, telephone follow-up was initiated for the employers of 67 of the 100 bondees in our sample, a total of 33 employers.* This procedure yielded a maximum of eleven more addresses, although the employers

* See footnote (4) under Table B-3, page 6.

of 20 bondees indicated on the telephone that they were reviewing their personnel records, and would either call us back and/or mail back the survey instrument, once the information was available.*

On the negative side, the telephone pre-test turned up 36 additional dead-ends. Attempts to reach employers on the telephone indicated that an additional four of them were out of business, yielding no further guidance on locating 24 bondees. Despite the fact that our mailings and telephone calls were based on the McLaughlin print-outs, employers of seven of the bondees reported that they had no record of having employed the individuals we specified. In four more cases, employers reported that they had once employed the bondees but no longer did so, and they had no idea where the bondees might now be found. Finally, one employer reported some negative experience with his bondee, and refused to cooperate with our study.

To recapitulate, the second phase of the pre-test yielded eleven additional possible addresses, and 36 dead-ends. The employers of twenty additional bondees promised to cooperate, but had not yet done so, more than three weeks after the initial mailing.

* Once these figures are available, an updating of the pre-test results will be provided to the Project Officer.

4.0 Combined Results

The combined results of the first two phases of the pre-test are summarized in Table B-5 below. As is shown in the table, the combined mailing and telephone approach yielded possible addresses for 18 of the 80 bondees, with responses for 20 additional bondees promised by employers, but not yet received.

TABLE B-5

SUMMARY OF INFORMATION

OBTAINED FROM EMPLOYERS¹

REGION:

RESULT	Mass.	Connecticut	N.Y.C.	TOTAL
Bondee Unknown by Employer	1	2	6	9
Address Obtained from Employer	4	3	11	18
Bondee Accessible Through Employer	0	1	3	4
Employer Presumed Out of Business	5	1	29	35
Outcome Pending	9	1	10	20
Address Unknown by Employer	6	6	1	13
Employer Re- fused Cooperation	0	1	0	1
Total	25	15	60	100

¹ Numbers refer to bondees

5.0 Analysis of Results and Implications

5.1 Analysis

The 18 addresses of former bondees which were obtained as a result of the first two phases of the pre-test represent a maximum number of bondees potentially accessible through the approach described above. The eighteen bondees for whom addresses are available appear to be roughly representative of the total bondee population on currently available measures. The average time of bonding for the 18 was about seven months later than the average for the 100 in our sample (mid-1971 versus early 1971). Similarly, the average level of coverage for the 18 was slightly higher (14.8 units versus 13.7).

It is not possible to say whether the addition of telephone follow-up (Phase II) to the initial mailing (Phase I) added to the representativeness of the resulting sample. While this procedure increased the representativeness with respect to level of coverage, it did not do so with respect to year of bonding.

For purposes of further analysis, the 100 bondees in our overall sample were subdivided into three groups: those for whom we already had some addresses (i.e. those for whom MT-110 forms were available), those who were presumably reachable because they were still bonded as of last July (and could therefore be reached at their current employers) and all others. Based upon the McLaughlin print-outs, there were 16 individuals in our sample who were still bonded; 12 for whom we have MT-110 forms; and 72 others.

Home addresses for bondees were provided by employers of three of the sixteen bondees listed as still bonded in the July print-out. (Several of the employers reported that the bondees no longer worked for them, a fact which has been born out in many cases, by cross-referencing the results with

more recent print-outs.)

Home addresses were provided by employers of only one of the twelve bondees for whom we had MT-110 forms. (The one address was the same as was provided on the MT-110 form.)

As might be expected, neither the "still employed" nor the "MT-110" bondees were representative of the total bondee population in our sample. Those still employed were bonded considerably more recently than the typical bondee; those for whom MT-110's are available were bonded considerably earlier. The level of coverage of those listed as still bonded is considerably higher than the average; the level for those for whom MT-110 data is available is somewhat lower than the average.

5.2 Implications

As indicated above, the 18 bondees for whom addresses are available represent the maximum number which are accessible using the mailed instrument and telephone follow-up approach. It is by no means clear, however, whether any of the bondees are now at the addresses provided by the employers and whether any of them who are accessible would respond to a mailed instrument without any financial or other incentive to do so.

In order to gain additional insights into the accessibility of bondees and probable response rates, it will therefore be necessary to conduct a third phase of the pre-test. This will involve developing a survey instrument and mailing it to available addresses for bondees. In particular, instruments will be sent to the three subsets of bondees:

- Those bondees for whom addresses become available through Phases I and II of the pre-test
- A five percent sample of those bondees who are still being bonded according to the most recent print-outs
- A five percent sample of those bondees for whom home addresses are available through MT-110 forms.

The group of 18 bondees for whom addresses were obtained through Phases I and II of the pre-test is too small to make generalizations concerning accessibility and/or response rate. But the conduct of Phase III will represent the completion of the process which appears most feasible in whole or in part-- for the conduct of a follow-up of more than 6000 bondees. It will therefore be instructive to determine the representativeness of those responding as compared with the original group of 100 bondees.

Beyond this, Phase III will provide comparative information concerning the accessibility of the "still bonded" and "MT-110" subgroups of bondees. The rate of return for instruments sent to those who are still bonded (care of their current employer) can then be compared with a maximum rate of return of three of sixteen addresses provided by employers. Similarly, the rate of return for the MT-110 bondees can be compared with the one of twelve addresses provided through Phases I and II for this group.

Taken together the "Phase I and II", "still bonded," and "MT-110" subgroups should also provide information concerning the probable rate of return, expressed as a percentage of those bondees for whom addresses are available. In other words, by sending mail "address correction requested" it will be possible to divide all of the recipients of Phase III mailings into three groups: those who are not accessible (and thus have their mail returned to Contract Research Corporation), those who receive the mail but do not choose to respond (presumed to be the case when neither the mail nor the return envelope is received), and those who do respond. Analysis of the relative proportions of these three groups, and further consideration of the representativeness of the bondees in each of them should provide the necessary data to make the decisions concerning the structuring of the bondee follow-up activities.

Attachment A

Detailed Procedures for Bonded Pre-test: Phases I & II

1.0 Selection of Jurisdiction

As indicated above, Massachusetts, Connecticut and New York City were selected for the pre-test because they provided some geographic variation while being close enough to Boston to facilitate any in-depth investigation which might be desirable. Additional jurisdictions which met these criteria (i.e. the other New England States) included such small numbers of bondes that their inclusion in the pre-test would have "used up" a significant portion of the total bonded pool in those jurisdictions. They were therefore excluded from our sample.

2.0 Selection of Bondes within Jurisdictions

Bondes were chosen through a proportionate stratified sampling technique* as is described below. In order to insure that the number of bondes in the sample was proportionate to the number of bondes in that jurisdiction, the following steps were taken:

1. The total number of bondes in each jurisdiction was determined through review of the McLaughlin print-outs for December, 1969 (for all those bonded prior to that time) and July, 1974 (for all of those bonded since that time).
2. Quotas for each of the three jurisdictions were determined by dividing the sum of the bondes in all three jurisdictions into the number to be included in our sample, and applying that resulting fraction to the total number of bondes in each jurisdiction who were bonded before and after December 1969 respectively.
3. Bondes were then selected within each jurisdiction according to a random number table until the number of bondes reached the required total.

* For a fuller description of this technique, see "Selection of the Sample" by Leslie Kish, in Festinger and Katz, Research Methods in the Behavioral Sciences, 1966.

3.0 Determination of Employer Addresses

Addresses for the employers of individuals bonded prior to December, 1969 were included in the McLaughlin print-outs. Addresses for other employers were not available on the post-1969 print-outs and were obtained from telephone books (the latest available in the Kirstein Business Branch of the Boston Public Library which had complete telephone books for the three jurisdictions).

4.0 Replacements of the Sample

Of the 50 post-1969 employers, no telephone listings were discovered for four of them. Subsequent follow-up with directory assistance, State Employment Services, and town clerks provided no information about these four employers. Therefore, in order to keep the base of 100 bondees for whom instruments were mailed, the four employers were replaced by individuals within the same States.

5.0 Mailing to Employers

Survey instruments were mailed to employers at the addresses which we had determined on November 13, 1974.* Copies of the instruments are included on the following pages.

As is indicated, for the majority of employers, letters were personalized through individual signatures by the Project Director. In cases where one employer had three or more bondees, additional procedures were employed to increase the likelihood of response. Thus, for these employers, a separate letter was prepared including an inside address and the number of bondees for whom a response was required.

* For 3 bondees (1 from NYC; 2 from Conn.), we sent out more than one letter to employers because there was not one main office for the company, and we therefore sent letters to each local office.

CONTRACT RESEARCH CORPORATION
25 FLANDERS ROAD
BELMONT, MASSACHUSETTS 02178
TELEPHONE (617) 489-3150

P. O. BOX 12233, NORTHSIDE STATION
ATLANTA, GEORGIA 30305
TELEPHONE (404) 387-3057

1028 CONNECTICUT AVE., N. W.
WASHINGTON, D. C. 20036
TELEPHONE (202) 833-3150

5 November 1974

Dear Sir or Madam:

Our research firm is currently under contract to perform a study of the benefits resulting from the Federal Bonding Program. As you recall, this is the federally sponsored program which enables you to hire and bond an individual who is not normally considered eligible for bonding.

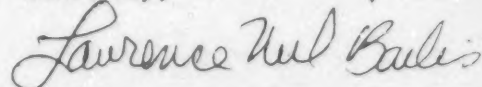
The results of our study may help in providing additional assistance to employers and job seekers in cases where problems of bonding eligibility arise.

In order for us to do as complete and thorough a job as possible, we need the help of both employers of bondees and of those who are bonded themselves. We would therefore appreciate it if you would complete the attached short questionnaire and mail it back to us in the enclosed envelope. We have already paid the postage. No information about individual bondees or employers will be released without their explicit agreement.

If you have any questions about this request, please do not hesitate to call or write me.

Thank you very much for your help.

Sincerely,



Lawrence Neil Bailis, Ph.D.
Project Director

LNB:wta

CONTRACT RESEARCH CORPORATION

25 FLANDERS ROAD

BELMONT, MASSACHUSETTS 02178

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P. O. BOX 12233, NORTHSIDE STATION

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1028 CONNECTICUT AVE., N. W.

WASHINGTON, D. C. 20036

TELEPHONE (202) 833-3150

BONDEE ADDRESS FORM

The information on this form will be employed in an effort to contact all participants and former participants in the Federal Bonding Program. All such information will be kept confidential by Contract Research Corporation. Thank you very much for your cooperation with this important study.

1. Did _____ ever work for you? _____

(IF NO, NO FURTHER QUESTIONS NEED BE ANSWERED)

2. Is this person currently employed by you? _____

(IF YES, ANSWER QUESTIONS 3 AND 4; IF NO, PLEASE
ANSWER QUESTIONS 5, 6, 7 and 8)

3. What is his or her current home address?

4. What is his or her current telephone number?

5. When did this person leave your employ?

6. Do you have the name and address of this person's
current employer?

7. Do you know a mailing address where he or she can
currently be reached?

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D-16

Form number _____

Contract Research Corporation
Bondee Address Form, page 2

8. Can you provide any other information which might be helpful in locating this person?

Form number _____

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D-17

6.0 Telephone Follow-up

Telephone follow-up for employers who had not yet responded by November 25 through 27 were initiated, with Contract Research Corporation staff employing the telephone interview guide included below.

Telephone numbers for the employers of post-1969 employers were obtained at the same time as the addresses. Telephone numbers for pre-1969 non-responding employers were obtained from directory assistance.

Script for Telephone Interviews

- 1) Locate personnel manager and identify myself.
 - . Carol Miller of Contract Research Corporation
 - . Conducting a study of the federal bonding program
- 2) Ask if the questionnaire was received.
 - a) if it was received:
 - . has it been filled out and returned to us?
 - . if it has not been filled out, would s/he mind if I asked a few questions over the phone?
 - . if they do not mind answering the questions, proceed with the interview on the attached page (A).
 - . if they do not wish to answer the questions over the telephone, encourage them to take the time to fill out the questionnaire and return it to us.
 - b) if the questionnaire was not received: get correct address.
 - . briefly explain the need for this information, as on page (B).
 - . ask if s/he would mind answering the questions over the phone.
 - . if they do not mind answering the questions, proceed with attachment A.
 - . if they do mind answering over the phone, tell them another questionnaire will be sent to the correct address; encourage them to fill it out and return it to us promptly.

BONDEE ADDRESS FORM

The information on this form will be employed in an effort to contact all participants and former participants in the Federal Bonding Program. All such information will be kept confidential by Contract Research Corporation. Thank you very much for your cooperation with this important study.

1. Did _____ ever work for you? _____

(IF NO, NO FURTHER QUESTIONS NEED BE ANSWERED)

2. Is this person currently employed by you? _____

(IF YES, ANSWER QUESTIONS 3 AND 4; IF NO, PLEASE ANSWER QUESTIONS 5, 6, 7 and 8)

3. What is his or her current home address?

4. What is his or her current telephone number?

5. When did this person leave your employ?

6. Do you have the name and address of this person's current employer?

7. Do you know a mailing address where he or she can currently be reached?

8. Can you provide any other information which might be helpful in locating this person?

TELEPHONE INTERVIEW - Page (B)

Explanation of the Bonding Program

Our research firm is currently under contract to perform a study of the benefits resulting from the Federal Bonding Program. This is the federally sponsored program which enables you to hire and bond an individual who is not normally considered eligible for bonding.

The results of our study will help in providing additional assistance to employers and job seekers in cases where problems of bonding eligibility arise.

In order for us to do as complete and thorough a job as possible, we need your help to provide us with information about bondees that were employed by you.

(Continue interview with bondee address form.)

UPDATE ON BONDEE SURVEY

The decision to initiate a large-scale bondee follow-up mailing (referred to as Phase IV of the bonding follow-up) resulted in the following activities:

- A complete revision of the instrument
- A modification to the cover letter
- Sending the instrument to all Illinois program participants for whom MT-110 forms were available - with legible addresses
- Sending the instrument to other (non-Illinois) program participants for whom MT-110 forms were available - with legible addresses

The results of these activities were:

- A one-page instrument which focussed on the job characteristics of the bonded job and of the bondees' current or most recent job (if different) and the bondees' estimate of the program's benefits. (See Appendix E for copy of the instrument.)
- A cover letter which attempted to identify the program well enough to assist the bondees' recollection of participation.
- Mailings to 473 program participants from Illinois. (There was a total of 542 MT-110 forms, sixty-nine of which had incomplete or illegible addresses). The Illinois MT-110 forms have been completed continuously throughout the program (1966-1974). Consequently many addresses were fairly current.
- Mailings to approximately 1366 other bondees who had participated in the program prior to 1971. MT 110 forms were partially available for non-Illinois participants from various states up through 1970. For a more complete breakdown of the distribution, see pages 10-12 in Appendix A.
- Completed forms were received from 19 Illinois bondees and 55 other bondees. The total completed questionnaires was 74. A number of these (27) "completed" responses come from individuals who said they had not participated in the program (22) or did not know that they had participated (5).
- Post office returns (that is, instruments returned by the post office because no forwarding address was available) totalled 1272; 214 from Illinois and 1058 for all other states.
- The combined total of completed instruments and post office returns was 1346 which indicates that about 493 instruments may have

reached the addressees but were not returned. It is likely that a larger proportion of those which may have been received but not returned were in Illinois since many of the addresses were relatively current when compared to the more general (non-Illinois) mailing.

SUMMARY OF BONDEE FOLLOW-UP
INSTRUMENTS RETURNED

SOURCE	TOTAL MAILED	COMPLETED INSTRUMENTS RETURNED	POST OFFICE RETURNS
Illinois	473	19	214
Other	1366	55	1358
Total	<u>1839</u>	<u>74</u>	<u>1272</u>

APPENDIX E

Instruments Used in Employer and Bondee Follow-up Surveys

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FEDERAL BONDING PROGRAM STUDY
EMPLOYER QUESTIONNAIRE

1. Please circle the number which best describes the nature of your firm's business.

- | | |
|---|---|
| 1. Transportation(Trucking & Warehousing) | 16. Eating and Drinking Place |
| 2. Construction(Building) | 17. Printing, Publishing and Related Industries |
| 3. Construction(Other than Building) | 18. Banking, Credit Agencies |
| 4. Manufacturing(Food Products) | 19. Insurance |
| 5. Manufacturing(Fabricated Metal Products) | 20. Real Estate |
| 6. Manufacturing(Electrical Equipment) | 21. Hotel, Motel, Inn |
| 7. Manufacturing(Machinery, not Electrical) | 22. Laundry and Cleaning Service |
| 8. Manufacturing(Other _____)
Specify | 23. Business Services(e.g. Temporary Help) |
| 9. Wholesale Trade | 24. Hospital, Clinic, Other Medical Service |
| 10. Retail Trade(General Merchandise) | 25. Repair Shop (Automobile) |
| 11. Retail Trade(Food) | 26. Repair Shop (Other _____)
Specify |
| 12. Retail Trade(Autos, Gas Service) | 27. Federal, State, Local Government |
| 13. Retail Trade(Clothing & Accessories) | 28. Other _____
Specify |
| 14. Retail Trade(Furniture, Home Furnishings) | |
| 15. Retail Trade(Other _____)
Specify | |

2. How many people does your company employ? (If the company has several branches or outlets please indicate the number working at your address.)

Five or less ☐

6 - 10 ☐

11 - 20 ☐

21 - 50 ☐

51 or more ☐

Don't Know ☐

3. How would you best describe the location of your business?

Inner City

☐

Small Town

☐

(Less than 10,000 population)

Suburban

☐

Rural

☐

4. Fidelity bonding is a form of insurance often taken out by employers to guard against employee dishonesty.

Does your firm ever take out fidelity bonding for any of its employees?

Yes, Used To

☐

No

☐

Yes, Still Does

☐

Don't Know

☐

IF NO OR DON'T KNOW, Skip to Item 28.

5. What proportion of your employees are usually covered by any fidelity bonding?

All

☐

One

☐

Most

☐

None

☐

Some

☐

Don't Know

☐

6. (a) What is the name of the agent or broker which handles your company's fidelity bonding coverage?

Agent/Broker

Name

Address

(b) What insurance company does he represent?

Insurance Company

Name

Address

7. How long has your firm been associated with this insurance company?

Less than 1 year

☐

4 to 6 years

☐

1 to 3 years

☐

More than 6 years

☐

Don't Know

☐

8. Which of the following types of fidelity bonding does your firm carry?

- a) NAME or POSITION SCHEDULE only ☐
(That is, special fidelity bonds for each employee or position,
e.g. cashier)
- b) BLANKET (That is, a single bond covering all employees requiring
bonding.) ☐
- c) BLANKET for most, NAME for one or more ☐
- d) DON'T KNOW ☐

9. Standard fidelity agreements often exclude individuals known by employers to have "committed dishonest or fraudulent acts."

Have you or anyone from your company ever asked your insurer whether a waiver of this exclusion could be granted in order to hire someone and have him/her covered under your company's normal bonding plan?

Yes ☐ No ☐ Don't Know ☐

IF NO or DON'T KNOW, Skip to Item 14.

10. Was this type of request made more than once?

No ☐ 3-5 Times ☐
Twice ☐ More than 5 times ☐

11. What was the response?

The insurer always agreed ☐

The insurer usually refused ☐

The insurer usually agreed ☐

The insurer always refused ☐

IF the insurer ALWAYS OR USUALLY AGREED, Skip to Item 14.

12. What were the reasons for refusal? (More than one answer is possible.)

The individual proposed for bonding had a police record. ☐

The individual proposed for bonding had a bad credit record. ☐

Other. (Specify) ☐

13. (a) When a waiver was not agreed to, did you request an individual NAME Schedule Bond for the potential employee(s)?

Yes ☐ No ☐ The insurance company suggested it ☐

- (b) If a request was made by your company or the insurance company, what was the response?

The insurer always agreed ☐

The insurer always refused ☐

The insurer usually agreed ☐

The insurer usually refused ☐

14. The following Items (Numbers 14 through 27) are related to a program sponsored by the U.S. Department of Labor and administered through your State Employment Security or Employment Service Agency. The program, known as the Federal Bonding Program, is designed to provide federally funded bonding coverage for persons not eligible for standard commercial bonding and has been operating since 1966.

Has your firm ever employed anyone who was covered under the Federal Bonding Program while working for you?

Yes ☐

No ☐

Don't Know ☐

IF NO or DON'T KNOW, Skip to Item 28.

15. How many employees has your firm hired under the Federal Bonding Program? (If the company has several branches or outlets, please indicate the number working at your address.)

1 ☐

3 ☐

13 - 20 ☐

2 ☐

4 - 12 ☐

More than 20 ☐

Don't Know ☐

16. (a) Does your firm fill some of its openings through the U.S. Employment Service?

Yes ☐

No ☐

IF NO, Skip to Item 17.

- (b) What is the approximate proportion filled through the U.S. Employment Service?

Under 20% ☐

41 - 60% ☐

81 - 100% ☐

21 - 40% ☐

61 - 80% ☐

Don't Know ☐

17. How did you hear about the Federal Bonding Program?

Employment Service ☐

The Job Applicant ☐

Parole or Probation Officer ☐

A Manpower Training Program ☐

Other(Specify) ☐

THE FOLLOWING TABLE (QUESTIONS 18-20) ASKS YOU TO PROVIDE SOME INFORMATION ON THE PERSON(S) HIRED BY YOUR FIRM UNDER THE FEDERAL BONDING PROGRAM. SPACE IS PROVIDED FOR INFORMATION ON UP TO 12 SUCH EMPLOYEES. FEEL FREE TO ADD ADDITIONAL INFORMATION ON THE BACK OF THE PAGE.

BONDEES

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
18. How long was bondee employed with your firm? (Number of months)												
19. Was bondee covered by Federal Bonding Program through the entire period of employment? (YES or NO)												

WHERE NO, ANSWER ITEM 20

WHERE YES, SKIP TO ITEM 21

20. What happened at the end of the period bondee was covered by the Federal Bonding Program?
(More than one check per bondee is possible.)

a. Kept the same job.												
b. Moved to another job in the company.												
c. Regular insurer agreed to cover the individual.												
d. Regular insurer was asked but refused to cover the individual.												
e. Made arrangements for the Federal Program's insurer to assume coverage at standard rates.												
f. Kept individual on the job without coverage.												

21. Has the work done by persons hired as a result of the Federal Bonding Program generally been satisfactory?

Yes ☐

No ☐

22. Has your firm hired ex-offenders without requiring fidelity bonding coverage?

Yes ☐

No ☐

23. Has your firm notified the U.S. Employment Service or other organizations of its willingness to hire ex-offenders?

Yes ☐

No ☐

24. (a) Has your firm sought to have its insurance company allow you to hire additional ex-offenders or others who might have difficulty getting bonded?

Yes ☐

No ☐

IF NO, Skip to Item 26.

(b) Under the regular bonding coverage for employees? Yes ☐ No ☐

(c) With NAME SCHEDULE bond coverage? Yes ☐ No ☐

(d) Without bonding of any kind? Yes ☐ No ☐

(e) Any other arrangement?
(Please specify) _____ Yes ☐ No ☐

25. If such efforts have been made with the insuror, have they been generally successful?

Yes ☐

No ☐

26. Has your firm submitted any claims for losses caused by individuals hired under the Federal Bonding Program?

No ☐

2 - 5 ☐

One ☐

More than 5 ☐

27. Please make any additional comments which would clarify the experience(s) your firm has had with the Federal Bonding Program.

28. NAME _____ TITLE _____

COMPANY NAME _____

ADDRESS _____
Street City State Zip

PHONE NUMBER _____

DATE _____

THANK YOU FOR YOUR ASSISTANCE. PLEASE RETURN THE
QUESTIONNAIRE IN THE ENCLOSED ENVELOPE. NO
POSTAGE IS NECESSARY.

CONTRACT RESEARCH CORPORATION
25 FLANDERS ROAD
BELMONT, MASSACHUSETTS 02178
TELEPHONE (617) 489-3150

P. O. BOX 12233, NORTHSIDE STATION
ATLANTA, GEORGIA 30305
TELEPHONE (404) 387-3057

1028 CONNECTICUT AVE., N. W.
WASHINGTON, D. C. 20036
TELEPHONE (202) 833-3150

7 February 1975

Dear Sir or Madam:

Our research firm is currently under contract to perform a study on the Federal Bonding Program. The program is a federally funded effort to provide assistance to individuals seeking employment in jobs for which the employers require fidelity bonding.

Your firm has been selected from the list of employers who hired individuals participating in this program. We are soliciting information both from bonded individuals and from employers.

It is particularly important for the usefulness of the study to obtain as much information as possible from responsible employers on their experience with the Federal Bonding Program. We would therefore, appreciate it if you could complete the attached questionnaire. In the event that someone else in your firm is more familiar with the details on this subject, please forward the letter and questionnaire to the appropriate person.

To insure meaningful results, we need to have all the questionnaires completed and returned as soon as possible. Most of the questions simply require checking the relevant boxes or, occasionally, completing a blank. However, it is important to be as accurate as possible so that the overall tabulations will be correct. All results will be reported in aggregated form. No responses from individual employers will be reported without explicit consent.

If you have any questions, please do not hesitate to get in touch with me. The completed questionnaire should be returned in the enclosed self-addressed envelope; no postage is necessary.

Thank you for your help.

Sincerely,

Lawrence N. Bailis, Ph.D.
Project Director

LNB:pt

BONDING PROGRAM PARTICIPANT SURVEY

Please Check Appropriate Boxes and Fill in Blanks

Since 1966, the U.S. Department of Labor and local State Employment Service agencies have helped to provide bonding (a form of insurance) for individuals who were having trouble getting bonded (and needed a bond for certain types of jobs). This program is usually known as the Federal Bonding Program, although it may have had a different name in your area. It is usually administered through the local employment service.

1. Did you ever receive bonding under this program or any similar one?

YES ☒

NO ☐

DON'T KNOW ☐

If NO or DON'T KNOW, please return questionnaire in the enclosed envelope.

2. What was the name of the company which hired you under the Federal Bonding Program? Name _____

3. What was your job with this company? (Please be specific.) _____

4. What was your salary? \$ _____ per _____ .

5. Do you still work at this same company? YES ☐ NO ☐

If YES, skip to Question #10.

6. How long did you stay at this company? _____

7. Why did you leave the company?

A better job
(better pay) ☐

Fired ☐

Other (please explain) _____

A better job
(same or less pay) ☐

Laid Off ☐

8. Do you think that being bonded under the Federal Bonding Program helped you get your most recent or current job?

YES, I gained good work experience
from the bonding program job ☐

YES, other reason (please explain) _____

YES, I had demonstrated my reliability
in the bonding program job ☐

NO ☐

DON'T KNOW ☐

9. Please indicate the company name, type of job, and salary of your current or most recent job.

Name of Company _____

Type of Job _____ Salary \$ _____ per _____

10. Additional Comments _____

CONTRACT RESEARCH CORPORATION

25 FLANDERS ROAD

BELMONT, MASSACHUSETTS 02178

TELEPHONE (617) 489-3150

The attached questionnaire is part of a research project to document all aspects of a fidelity bonding assistance program run by the federal government and the State Employment Services.

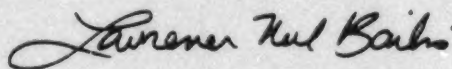
Many employers require that their employees be covered by fidelity bonds, a type of guarantee against employee theft. Often job applicants are not eligible for fidelity bonds and are therefore unable to get certain types of jobs. The Federal Bonding Program was set up to provide coverage for those who are otherwise ineligible and thus help them get jobs.

We are sending a questionnaire to those individuals who may have participated in the program in order to find out whether the program has been helpful.

Your responses are confidential and will be used only in combination with other responses to determine whether the program made a difference in the type of jobs available to the program participants. It is important to the usefulness of the research to have all the questionnaires returned even if you choose not to complete the information. Please mail it back to us in the enclosed envelope. No postage is necessary.

Thank you for your help.

Sincerely,



Lawrence N. Bailis
Project Director

APPENDIX F

Representativeness of the Illinois Bondees

As described in Section 1.4 of this report, the unavailability of certain statistics for all bonding program participants led to a decision to constitute an Illinois case study, a series of analyses for all of those individuals who were bonded in the State of Illinois.

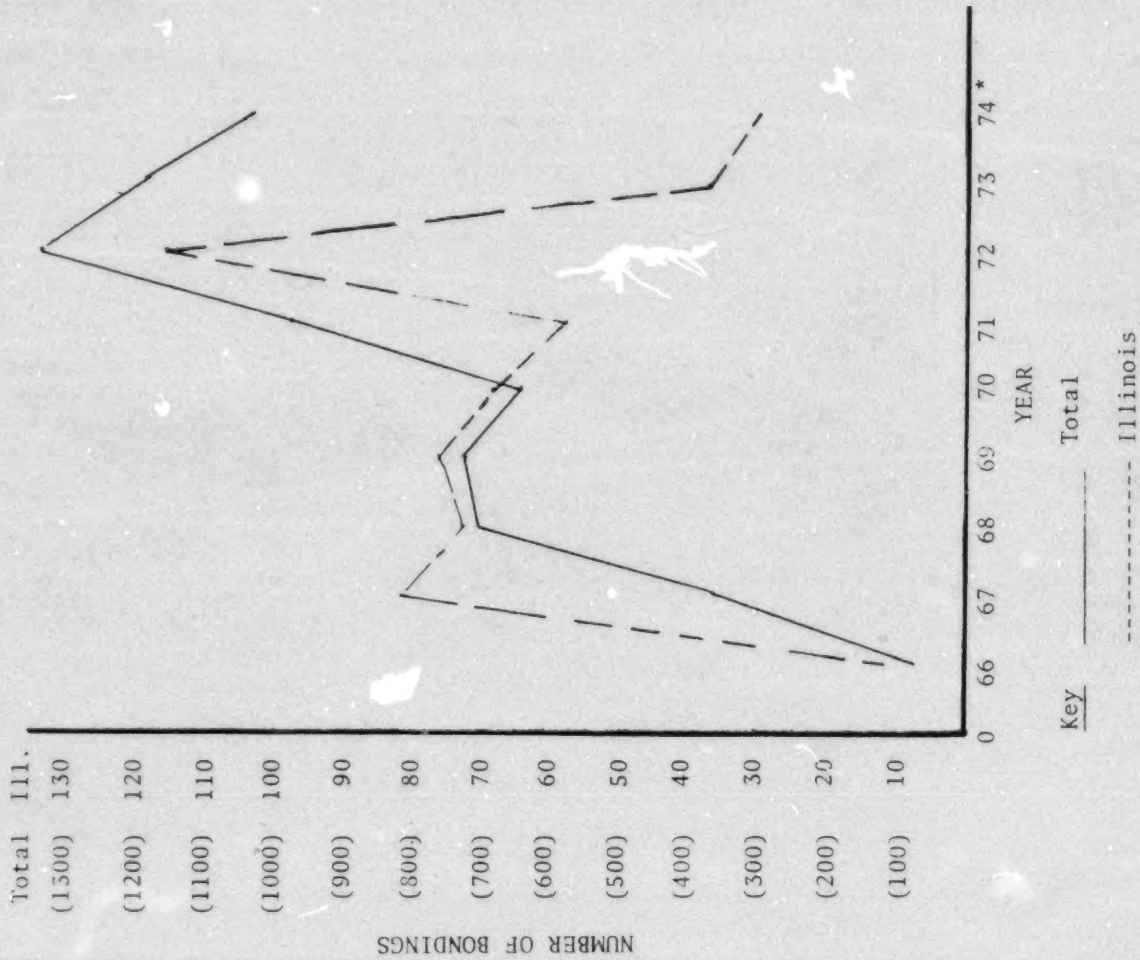
The shortcomings in demographic data which make it impossible to provide statistics for the entire bondee population also make it impossible to comment definitively upon the representativeness of the Illinois bondees. But it is possible to compare the Illinois bondees and the entire bondee population in terms of a number of factors associated with utilization of the program. In all cases, the pattern of utilization in Illinois appeared to roughly coincide with the national pattern.

As is shown in Exhibit F-1, the bonding activity in Illinois generally paralleled that in the country, especially during the early years of the program. Exhibit F-2 demonstrates that the distribution of the rate of coverage for bondees is similar for the two groups; in both cases the largest group of bondees was covered for the maximum amount, \$10,000 per year.

The similarities in amount of time bonded between the Illinois bondees and the entire bondee population are illustrated in Exhibits F-3 and F-4 the bulk of bondees in Illinois and in the country were bonded for less than a year, Illinois bondees tended to be covered longer than their counterparts in the rest of the country.

EXHIBIT F-1

COMPARISON OF ANNUAL BONDINGS: TOTAL AND ILLINOIS



Year	Bondings	
	Ill.	Total
1966	12	74
1967	82	368
1968	74	712
1969	76	728
1970	69	647
1971	58	981
1972	116	1345
1973	37	1198
1974	30* (est.)	1032*(est.)

*1974 estimates were calculated by multiplying the number of bondings known through July, 1974 by 12/7, which assumes the same monthly average for 12 months

EXHIBIT F-2

RATE OF COVERAGE					
UNITS	VALUE	ALL BONDEES		ILLINOIS BONDEES	
		Number	Percent	Number	Percent
1-4	\$2000 or less	1056	15.9	44	8.1
5	2500	482	7.2	60	11.0
6-9	3000-4500	252	3.8	21	3.9
10	5000	1435	21.6	164	30.3
11-19	5500-9500	66	1.0	3	.05
20	10,000	3361	50.5	249	46.0
		6652	100.0	541	99.8

EXHIBIT F-3

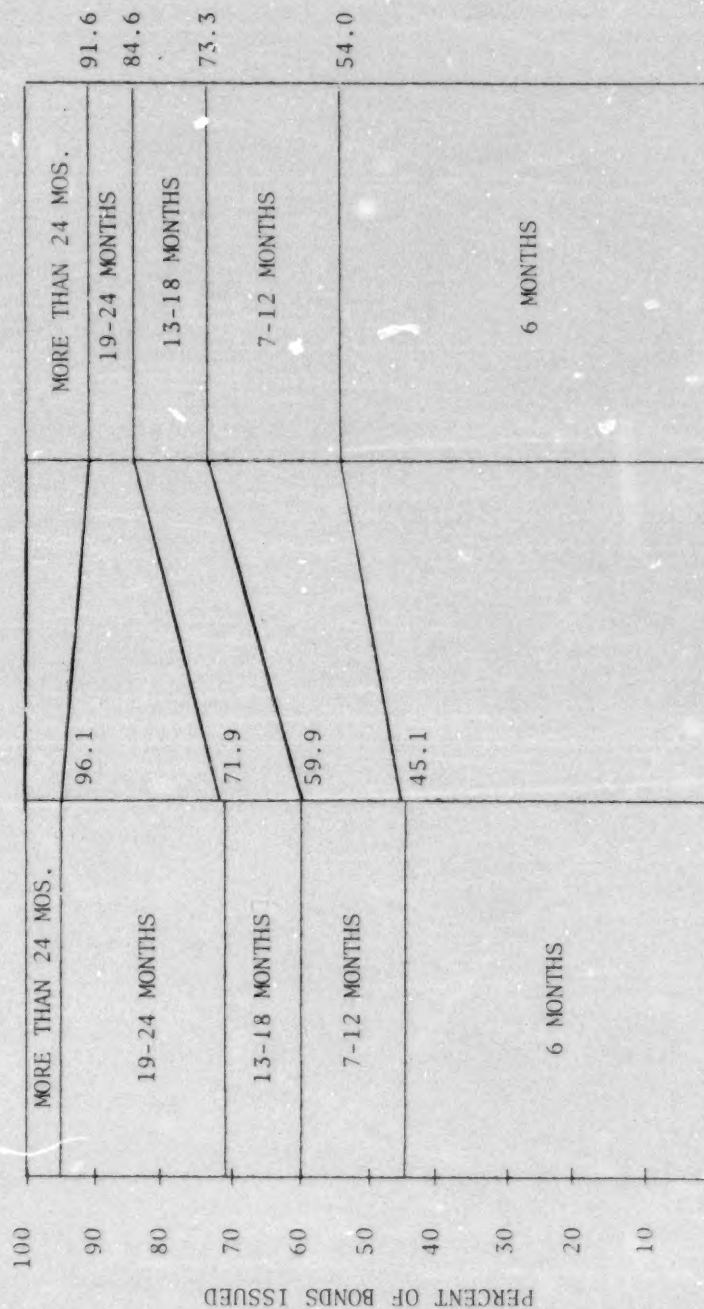
LENGTH OF TIME BONDED				
Months	ALL BONDEES		ILLINOIS BONDEES	
	Number	Percent	Number	Percent
1-6	3582	54.0	244	45.1
7-12	1282	19.3	80	14.8
13-18	748	11.3	65	12.0
19-24	464	7.0	131	24.2
25 +	559	8.4	21	3.9
	6655	100.0	542	100.0

EXHIBIT F-4

COMPARISON OF ILLINOIS AND NATIONAL PROFILES

PROPORTION OF PROGRAM PARTICIPANTS

BY MONTHS OF COVERAGE:



ILLINOIS

TOTAL NATIONAL BONDING PROGRAM

APPENDIX G

The Canadian Experience

THE CANADIAN EXPERIENCE

The Canadian government is currently sponsoring a bonding program for ex-offenders that differs in many ways from the United States Federal Bonding Program. This appendix contains a summary description of the program's operation and history, and a discussion of the implications of the Canadian experience for the United States program.

1.C PROGRAM DESCRIPTION

The Canadian bonding program for bonding ex-offenders is a cooperative effort between the Department of the Solicitor General, the provincial probation and parole services, private after-care agencies such as the John Howard Society, and the Canadian fidelity bonding underwriters.

The program is currently administered as follows. Ex-inmates of correctional institutions, parolees, and probationers, who learn about job opportunities which require fidelity bonding, discuss these opportunities with staff of National and Provincial parole and probation organizations or with staff of private after-care organizations such as the John Howard Society or the Salvation Army. If, in the judgement of these officials, the ex-offender has been successfully rehabilitated and is trustworthy, a letter is sent stating this opinion and providing back-up information, to the insurance underwriter which is currently providing coverage to the employer.

The amount of coverage is left to the discretion of the individual underwriter. During the initial experimental year of program operations, the Surety Committee of the Insurance Bureau of Canada (IBC)* provided the following guidance:

*The IBC is the trade association for Canadian insurers and was then known as the All Canada Insurance Federation.

As to limits, the Committee's suggestion is \$500.00 or \$1000.00. However, it is suggested that in certain cases the amount could go as high as \$2500.00

Following that initial year, there was no stated limit and cases have been given individual consideration. A 1972 memorandum to IBC member firms restated this policy as follows:

It is emphasized that \$2500 is not necessarily the maximum amount that the insurance industry is prepared to provide, it being the Surety Committee's intention that a maximum or a minimum amount is entirely discretionary as far as any individual underwriter is concerned....

Applications will be received for substantially higher amounts. In some cases, the underwriter may be willing to issue a bond for the required amount. In cases where this is not possible, the applicant, with the assistance of the National Parole Service or the After-Care Agency concerned, will need to seek the cooperation of the employer in accepting a smaller bond.*

No specific guidelines for the letters to insurance underwriters have been prepared, but insurance officials have indicated that the communications appear to be generally similar, stressing the positive features of the ex-offender such as ambition, resourcefulness, reliability, conscientiousness, trustworthiness, and so forth. Although no formal guarantee of the reliability of the ex-offender is provided, the insurance companies consider that the organization sending the letter of reference is serving as the "sponsor" of the individual.

Upon receipt of these letters, insurance underwriters make an individual, case-by-case decision concerning whether or not to provide fidelity coverage. The insurance industry as a whole has not adopted any standardized procedures for handling these requests; there are indications, however, that these decisions are made at relatively high levels in the organizations.

The decisions of the underwriters relative to specific ex-offenders are then sent to the Department of the Solicitor General of Canada, which tabulates

* Information Bulletin: General No. 21 issued by the Insurance Bureau of Canada, dated April 4, 1972.

the results.

2.0 PROGRAM RESULTS

There are few available statistics concerning program operations. The decentralization of the program, with individual parole and after-care agencies corresponding with individual insurance underwriters, has resulted in a situation in which extensive data on the program have never been compiled in any single location.

According to the Department of the Solicitor General, a total of 74 individuals have been bonded under this program in the period between its inception in 1968 and August 15, 1974. This represents all but 5 of the 79 applications which have been forwarded to the insurance underwriters. The Department has thus come to the conclusion that "the bonding companies are much more receptive to issuing bonds than is commonly believed."*

Neither the Department of the Solicitor General nor the Insurance Bureau of Canada have any data on the loss experience associated with this program, and officials in these organizations are unable to offer any opinions on this topic.

3.0 HISTORY OF THE PROGRAM

The Canadian ex-offender bonding program was initiated in 1968 as a response to a number of requests for assistance received by various public and private Canadian criminal justice organizations. The direct impetus came from the Department of the Solicitor General, Correctional Planning Branch. Officials of that organization were aware of an ex-offender bonding program in the United States, and scheduled a series of meetings with the All Canada Insurance Federation and

* Undated information sheet prepared by the Canadian Department of the Solicitor General.

the John Howard Society, a leading private after-care organization which has branches throughout the country.

Following the United States model, the Canadian government proposed the purchase of a number of "bonding slots", i.e., a bond to cover one man for one year, which would be available to former offenders through the National Parole Service and the John Howard Society.

The insurance underwriters objected to this proposal on several grounds. In the first place, they believed that there was no clear need for such an approach; in many cases, they felt, employers were using bonding as an excuse to avoid hiring ex-offenders.* Secondly, they indicated that if "bonding slots" were to be distributed by non-insurance underwriters (without underwriter discretion) the premiums would need to be much higher than normal. Finally, some of the insurers expressed uneasiness about the degree of government involvement in what they regarded as a private sector issue.

As a result, the Department and the industry negotiated a "voluntary" and "cooperative" project as is described in Section 1, above. The negotiations and resulting agreement were described to underwriter members of the All Canada Insurance Federation as follows:

The [Ontario and Western Provinces Surety] Committee recommends that a voluntary program be established whereby Insurers providing an employer's Fidelity Bond voluntarily accept for bonding an ex-offender being considered by the employer for employment or for promotion, following full disclosure of all relevant information by the National Parole Service or by the after-care agency involved.

The conclusion reached by the Committee, following lengthy discussions of all aspects of the problem, is that bonds would most likely be made available to the majority of such individuals on the strength of cooperation and disclosure of all information pertinent to the bonding situation by the National Parole Service, the various John Howard Societies in Canada, other

* This response was identical to that taken by the United States fidelity bonding industry as is described in the History of the Federal Bonding Program.

after-care agencies and various probation services as might be involved; Sponsorship, either actual or implied by the National Parole Service or by the after-care agency, [indicates...] that the individual has made satisfactory adjustment and is likely to succeed in his rehabilitation.*

According to sources in the Canadian government, the insurance companies agreed to participate in the program for several reasons:

- They preferred this system to one in which the government would play a considerably larger role
- They were "captivated" by the idea
- They believed that it would enhance their public images

The ex-offender bonding activities were initiated as a one-year demonstration project with a suggested limit of \$1000 of coverage and a provision for \$2500 in exceptional circumstances.

By 1969, the project was considered to be a "relative success" and was expanded nationwide to involve all 10 provincial and 2 territorial probational services. In addition to this, the Insurance Bureau removed the suggested limitation in coverage, leaving the amount to the discretion of the bonding firm.

The number of bondees reportedly participating in this program has consistently fallen below the expectations of Department of the Solicitor General officials. Thus, as of August, 1970, only 23 requests for bonding had been made to fidelity bonding underwriters, with 19 of these being accepted. The most recent figures indicate that as of August 15, 1974, the results of 79 applications for ex-offender bonding had been forwarded to the Department, with all but five of these being accepted.

The Department's assessment of the situation is as follows:

Our returns would seem to indicate that, of the overall total potential applicants, very few applications are being submitted to bonding companies. We feel that this can be attributed to three possible factors:

* All Canada Insurance Federation, General Bulletin No. 128, dated September 23, 1968.

- Many people still believe that bonding is not possible for a person with a criminal record;
- Returns being sent in are not indicative of the actual number of ex-offenders who have been successful in obtaining bonding; and,
- Some are being assisted unofficially and informally by representative of the various agencies.

As a result of the belief that much bonding activity may not be reported to the Department, additional efforts have been made to urge that all participants in the program keep the government better informed about their activities, and additional efforts to analyze available data are being made.

4.0 IMPLICATIONS

The Canadian bonding program has involved only a very limited number of individuals. But the fact that Canadian underwriters--many of them affiliates of American firms--were willing to participate in a program which provides coverage and maintains underwriter discretion suggests that such a program is at least possible in the United States. This alternative would, therefore, appear to merit some exploration at a meeting of Department of Labor and insurance industry leaders.

APPENDIX H

Related Surety Bonding Activity of the U.S. Federal Government

RELATED SURETY BONDING ACTIVITY OF THE U.S. FEDERAL GOVERNMENT

1.0 SURETY BONDS FOR GOVERNMENT CONSTRUCTION

1.1 Overview

The United States government currently spends an estimated \$24 million to provide surety bonds for government construction projects. These bonds are somewhat similar to fidelity bonds, and fall into two general categories: payment bonds to secure payment to persons supplying labor and materials for such projects, and performance bonds to secure fulfillment of all obligations in the construction contract.

1.2 The Self-Insurance Issue

The government programs to provide surety bonds for construction projects were recently studied by the General Accounting Office (GAO).^{*} One of the topics addressed by the study was the issue of self-insurance by the Federal Government, as opposed to continuing reliance upon private insurance contractor/underwriters. The GAO was unable to reach any definitive conclusions on this topic because of weaknesses in the data:

In the absence of comparable quantitative data, we could not develop measurable evidence supporting either elimination or retention of the current bonding system... (but)

The major participants in the system generally voiced opinions that surety bonds were needed and that the current system was effective and should be continued.**

^{*} Report to the Congress: Use of Surety Bonds in Federal Construction Should Be Improved by the Comptroller General of the United States, January 17, 1975.

^{**} ibid., p.140.

In particular, it was judged to be impossible to develop comparable cost data because:

The monetary value of the individual services provided by sureties could not be isolated [and] because federal agencies have had no experience in providing these services, they could not state what the cost would be if the government assumed such services.*

The report also went on to note the "particular factors arguing against the Government's becoming a self-insuror" which included

- lack of legal means
- lack of administrative machinery, and
- lack of in-house expertise**

for handling claims of subcontractors, suppliers, and laborers. The report went on to note that

It is apparent that the sureties do not automatically pay all claims submitted...Rather, the sureties make certain determinations regarding the validity of the claims...

If bonds were eliminated, some other system for protecting [those covered] would have to be devised. Most federal construction agencies believe that a workable system cannot be developed.

The agencies feel that, even if a system could be developed, the administrative cost to the Government to operate the system likely would be high.***

1.3 Implication

It would appear that many of these arguments against self-insurance for surety bonds would be equally relevant to questions of self insurance for fidelity bonding of ex-offenders.

* Ibid.

** Ibid.

*** Ibid., p.15.

2.0 THE SBA BOND GUARANTEE PROGRAM*

2.1 Overview

This program was established pursuant to Public Law 91-609, and allows the Small Business Administration (SBA) to guarantee, for a fee, any surety company against up to 90 percent of its losses resulting from a small contractor's breach of the terms of a bid, performance, or payment bond as described in Section 1.

The goals of the program are to:

- provide bonds for small and minority contractors who cannot obtain bonds in the open market;
- increase the viability of these contractors so they can make the transition to the regular bonding program.

Given the manner in which the program was administered, participating sureties incurred only a 10% risk for 90% of the collected premiums. In essence, this represents a nine-fold increase in the ratio of premium to risk from the standard situation; in addition to this, underwriters were permitted to charge higher premium rates for those covered in the program than was standard in the industry.

2.2 Role of the Insurance Industry

A General Accounting Office study of the SBA program referred to this arrangement as a "disparity in the relationship of risk to premiums" and attributed it to "the uncompromising position taken by the surety industry during negotiations."* According to Small Business Administration officials, the industry had offered the 90-10 split on a "take it or leave it" basis; it was their belief that had the government not been willing to accept 90% of the risk, the industry would not have been willing to participate in the program at all.

* Unless otherwise noted, this material has been adapted from the above-cited GAO report.

** p.350.

2.3 Implication

The SBA program illustrates that the insurance industry can be persuaded to "bond unbondables" for a given price. But the relatively high premiums involved, and (reported) lack of flexibility on the part of insurance industry negotiators, suggest that there are limits to what realistically can be expected of the industry with respect to providing fidelity bonding coverage for those who are not judged eligible for standard commercial coverage.